CHINA UNICOM (HONG KONG) Ltd
Form 20-F
April 25, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report ____________

Commission file number 1-15028

CHINA UNICOM (HONG KONG) LIMITED

(Exact Name of Registrant as Specified in Its Charter)

N/A	Hong Kong
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

75th Floor, The Center

99 Queen s Road Central

Hong Kong

(Address of Principal Executive Offices)

Chu Ka Yee

Telephone: +852 2121 3220

Facsimile: +852 2121 3232

75th Floor, The Center

99 Queen s Road Central

Hong Kong

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Ordinary shares, par value HK$0.10 per share	The New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on The New York Stock Exchange, Inc. of American depositary shares, or ADSs, each representing 10 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2011, 23,564,901,919 ordinary shares were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No __

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes __ No ü

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes __ No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ü Accelerated Filer __ Non-Accelerated Filer __

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP __

International Financial Reporting Standards as issued by the International Accounting Standards Board ü

Other__

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 __ Item 18 __

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No ü

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Note Regarding Forward-Looking Statements

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to (i) our plans and strategies, including those in connection with our restructuring and integration after our merger with China Netcom Group Corporation (Hong Kong) Limited, or China Netcom, mergers and acquisitions and capital expenditures; (ii) our plans for network expansion, including those in connection with the build-out of third generation mobile telecommunications, or 3G, digital cellular business and network infrastructure; (iii) our competitive position, including our ability to upgrade and expand existing networks and increase network efficiency, to improve existing services and offer new services, to develop new technological applications and to leverage our position as an integrated telecommunications operator and expand into new businesses and markets; (iv) our future business condition, including our future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, our new and existing products and services, in particular, 3G services; and (vi) future regulatory and other developments in the PRC telecommunications industry.

The words anticipate , believe , could , estimate , intend , may , seek , will and similar expressions, as they relate to us, are intend certain of these forward-looking statements. We do not intend to update any of these forward-looking statements.

The forward-looking statements contained in this annual report are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of our future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of a number of factors, including, without limitation:

- changes in the regulatory regime and policies for the PRC telecommunications industry, including without limitation changes in the regulatory policies of the Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, or the SASAC, and other relevant government authorities of the PRC;
- changes in the PRC telecommunications industry resulting from the issuance of 3G licenses by the central government of the PRC;
- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;
- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services, in particular, 3G services;
- competitive forces from more liberalized markets and our ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;
- effects of competition on the demand and price of our telecommunications services;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

the result of the anti-monopoly investigation by the National Development and Reform Commission of the PRC, or the NDRC, relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers;

changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans; and changes in the political, economic, legal and social conditions in China, including the PRC Government s policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry.

Please also see D. Risk Factors under Item 3.

Certain Definitions

As used in this annual report, references to we , us , our , the Company , our company and Unicom are to China Unicom (Hong Kong) (formerly known as China Unicom Limited). Unless the context otherwise requires, these references include all of our subsidiaries. In respect of any time prior to our incorporation, references to we , us , our and Unicom are to the telecommunications businesses in which our predecesso were engaged and which were subsequently assumed by us. All references to Unicom Group are to China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation), our indirect controlling shareholder. Unless the context otherwise requires, these references include all of Unicom Group s subsidiaries, including us and our subsidiaries.

All references to China Netcom are to China Netcom Group Corporation (Hong Kong) Limited, which merged with us in October 2008, and, as the context may require, its subsidiaries. References to Netcom Group mean China Network Communications Group Corporation, which merged with, and was absorbed by, Unicom Group in January 2009 and, as the context may require, its subsidiaries, other than us and our subsidiaries.

As used in this annual report:

references to China or PRC mean the People s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan, and references to the central government or the PRC Government mean the central government of the PRC;

references to our fixed-line northern service region mean the 10 municipalities, provinces and region where we operate fixed-line business in northern China, consisting of Beijing and Tianjin Municipalities, and Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, and Shanxi Provinces, and the Inner Mongolia Autonomous Region;

references to the 21 provinces in southern China mean Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Hubei Province, Hunan Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Hainan Province, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region; we completed the acquisitions of certain telecommunications business and assets, including the fixed-line business in those 21 provinces in southern China, from Unicom Group and Netcom Group and/or their respective subsidiaries and branches in January 2009; see A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China under Item 4;

references to Hong Kong Stock Exchange or HKSE mean The Stock Exchange of Hong Kong Limited, and references to NYSE or New York Stock Exchange mean The New York Stock Exchange, Inc; and

references to Renminbi or RMB are to the currency of the PRC, references to U.S. dollars or US$ are to the currency of t United States of America, references to HK dollars or HK$ are to the currency of the Hong Kong Special Administrative Region of the PRC and references to Euro are to the currency of the eurozone (17 of the 27 member states of the European Union).

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. *Selected Financial Data*

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2007, 2008, 2009, 2010 and 2011. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2009, 2010 and 2011 and the selected historical consolidated balance sheet data as of December 31, 2010 and 2011 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical consolidated income statement data for the years ended December 31, 2007 and 2008 and consolidated balance sheet data as of December 31, 2007, 2008 and 2009 set forth below are derived from our internal records and management accounts that are not included in this annual report on Form 20-F. Our consolidated financial statements as of and for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 have been prepared and presented in accordance with IFRS/HKFRS. The statistical information set forth in this annual report on Form 20-F relating to China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside China.

We completed (i) the acquisition of the entire equity interest in China Unicom NewSpace Limited, or Unicom NewSpace, by China Unicom Broadband Online Limited Corporation, or Broadband Online, a wholly-owned subsidiary of China United Network Communications Corporation Limited, or CUCL, from Unicom Group, or the 2011 Acquisition, in December 2011, (ii) the acquisitions of fixed-line business in 21 provinces in southern China, the local access telephone business in Tianjin Municipality, three subsidiaries (together referred to as the Target Business) and certain other telecommunications assets from Unicom Group and Netcom Group (which was later merged with Unicom Group in January 2009), or the 2009 Acquisition, in January 2009, (iii) a merger with China Netcom in October 2008, and (iv) the acquisition of assets and business of the Guizhou Province branch of Unicom Group, or Unicom Guizhou, from Unicom Group in December 2007, or the 2007 Acquisition. Prior to its merger with us, China Netcom completed an acquisition of the entire equity interest of Beijing Planning and Design Institute, or Design Institute, a wholly-owned subsidiary of Netcom Group, in December 2007. See A. History and Development of the Company Unicom Acquisitions and Sales 2011 Acquisition , A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China , A. History and Development of the Company Sale of CDMA Business, Merger with China Netcom and Related Transactions Merger with China Netcom and Related Transactions , A. History and Development of the Company Unicom Acquisitions and Sales and A. History and Development of the Company History and Corporate Development of China Netcom under Item 4, respectively. Because (i) we and Unicom NewSpace were under common control of Unicom Group both prior to and after the 2011 Acquisition, (ii) we and the Target Business were under common control of Unicom Group both prior to and after the 2009 Acquisition, (iii) we and China Netcom were under the common control of the PRC Government both prior to and after the merger, (iv) we and Unicom Guizhou were under the common control of Unicom Group both prior to and after our acquisition of Unicom Guizhou and (v) China Netcom and Design Institute were under the common control of Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009) both prior to and after China Netcom s acquisition of Design Institute, each of the acquisitions and the merger is considered as a business combination of entities and businesses under common control and has been accounted for using merger accounting in accordance with Accounting Guideline 5 Merger accounting for common control combinations , or AG 5, issued by the HKICPA in November 2005. Upon our adoption of IFRS, we adopted the accounting policy to account for business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that the acquired entities and businesses mentioned above in this paragraph had always been under common control during all the periods presented, the assets and liabilities thereof are stated at predecessor values and are included in the consolidated financial statements included in this annual report on Form 20-F as if these entities and their businesses acquired had always been part of our company during all the periods presented. As a result, the selected consolidated financial statements data as of and for the years ended December 31, 2007, 2008, 2009 and 2010 was restated to reflect the 2011 Acquisition.

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The adoption of amended IFRS/HKFRS 1 in 2011 resulted in a change in accounting policy for property, plant and equipment, which has been applied retrospectively so that the comparative data presented in the selected consolidated financial statements data as of and for the years ended December 31, 2007, 2008, 2009 and 2010 have been restated to conform to the changed policy. A detailed description is set forth in Note 2.2(d) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

We completed the disposal of our CDMA business in October 2008. See A. History and Development of the Company Sale of CDMA Business, Merger with China Netcom and Related Transactions Disposal of CDMA Business and Related Transactions under Item 4. In accordance with IFRS/HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations , we recognized the CDMA business as discontinued operations and the CDMA business was presented separately as discontinued operations in our audited consolidated statements of income and statements of cash flows for the years ended December 31, 2007 and 2008.

Prior to our merger with China Netcom, China Netcom completed the disposal of the fixed-line telecommunications and related services in its Guangdong and Shanghai branches in February 2007. See A. History and Development of the Company History and Corporate Development of China Netcom under Item 4. After considering that we reacquired the fixed-line business in Guangdong and Shanghai branches in January 2009, we did not present the fixed-line business in Guangdong and Shanghai branches as discontinued operations and derecognized the gain on disposal previously recorded in our 2007 consolidated financial statements.

	As of or for the year ended December 31					
	2007 (Restated)(1) RMB	2008 (Restated)(1) RMB	2009 (Restated)(1) RMB	2010 (Restated)(1) RMB	2011 RMB	2011 US$(2)
	(in millions, except for per share data)					
Consolidated Income Statement Data:						
CONTINUING OPERATIONS						
Revenue(3)						
Mobile business						
Service revenue	62,476	64,674	70,102	82,449	103,307	16,414
Sales of mobile telecommunications products	14	532	1,970	7,173	23,219	3,689
Total mobile telecommunications revenue	62,490	65,206	72,072	89,622	126,526	20,103
Fixed-line business						
Service revenue (3)	95,875	92,593	81,160	79,942	81,642	12,971
Sales of fixed-line telecommunications products	980	1,362	193	114	63	10
Total fixed-line telecommunications revenue	96,855	93,955	81,353	80,056	81,705	12,981
Unallocated amounts						
Service revenue (3)	648	701	601	1,692	936	149
Sales of other telecommunications products	-	5	-	-	-	-
	648	706	601	1,692	936	149
Total revenue	**159,993**	**159,867**	**154,026**	**171,370**	**209,167**	**33,233**
Total costs, expenses and others	**(137,088)**	**(156,444)**	**(141,870)**	**(166,786)**	**(203,569)**	**(32,344)**
Income from continuing operations before income tax	**22,905**	**3,423**	**12,156**	**4,584**	**5,598**	**889**
Income tax expenses	(6,988)	(1,664)	(2,692)	(883)	(1,371)	(217)

Income from continuing operations	**15,917**	**1,759**	**9,464**	**3,701**	**4,227**	**672**

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	As of or for the year ended December 31					
	2007 (Restated)(1) RMB	2008 (Restated)(1) RMB	2009 (Restated)(1) RMB	2010 (Restated)(1) RMB	2011 RMB	2011 US$(2)
	(in millions, except for per share data)					
DISCONTINUED OPERATIONS(4)						
Income from discontinued operations	656	1,438	-	-	-	-
Gain on disposal of discontinued operations	-	26,135	-	-	-	-
Sub-total for discontinued operation	656	27,573	-	-	-	-
Net income	**16,573**	**29,332**	**9,464**	**3,701**	**4,227**	**672**
Earnings per share for income attributable to owners of the parent during the year						
-Basic earnings per share(5)	0.72	1.23	0.40	0.16	0.18	0.03
-Diluted earnings per share(5)	0.71	1.23	0.40	0.16	0.18	0.03
-Basic earnings per ADS(6)	7.18	12.35	3.98	1.57	1.79	0.29
-Diluted earnings per ADS(6)	7.11	12.25	3.96	1.56	1.78	0.28
Earnings per share for income from continuing operations attributable to owners of the parent during the year						
-Basic earnings per share(5)	0.69	0.07	0.40	0.16	0.18	0.03
-Diluted earnings per share(5)	0.68	0.07	0.40	0.16	0.18	0.03
-Basic earnings per ADS(6)	6.90	0.74	3.98	1.57	1.79	0.29
-Diluted earnings per ADS(6)	6.83	0.73	3.96	1.56	1.78	0.28
Earnings per share for income from discontinued operations attributable to owners of the parent during the year						
-Basic earnings per share(5)	0.03	1.16	-	-	-	-
-Diluted earnings per share(5)	0.03	1.15	-	-	-	-
-Basic earnings per ADS(6)	0.28	11.61	-	-	-	-
-Diluted earnings per ADS(6)	0.28	11.52	-	-	-	-
-Number of shares outstanding for basic earnings per share(5)	23,075	23,751	23,767	23,562	23,564	23,564
-Number of shares outstanding for diluted earnings per share(5)	23,321	23,941	23,895	23,704	23,785	23,785
-Number of ADS outstanding for basic earnings per ADS(6)	2,308	2,375	2,377	2,356	2,356	2,356
-Number of ADS outstanding for diluted earnings per ADS(6)	2,332	2,394	2,389	2,370	2,379	2,379
Consolidated Balance Sheet Data:						
Assets						
Cash and cash equivalents and short-term bank deposits	13,582	10,652	8,891	22,870	15,410	2,448
Property, plant and equipment	307,071	315,526	350,976	365,654	381,859	60,671
Inventories and consumables	2,816	1,147	2,412	3,728	4,651	739
Prepayments and other current assets	5,181	2,876	4,253	5,115	6,127	973
Financial assets at fair value through other comprehensive income	287	95	7,977	6,214	6,951	1,104
Proceeds receivable for the disposal of the CDMA business	-	13,140	5,121	-	-	
Total assets	**369,000**	**380,438**	**417,008**	**441,269**	**456,233**	**72,488**
Liabilities						
Accounts payable and accrued liabilities	61,376	73,933	104,096	97,666	95,252	15,134
Long-term loans due to ultimate holding company	27,213	35,652	-	-	-	-
Payables in relation to the disposal of the CDMA business	-	4,232	7	-	-	-
Short-term bank loans	11,850	10,780	63,909	36,727	32,322	5,135
Commercial papers	20,000	10,000	-	23,000	38,000	6,038
Current portion of long-term bank loans	7,413	1,216	62	58	50	8
Current portion of other obligations	3,381	3,012	2,534	2,637	2,586	411
Long-term bank loans	16,086	997	759	1,462	1,384	220

Promissory notes	-	-	-	15,000	15,000	2,383
Convertible bonds	-	-	-	11,558	11,118	1,766
Corporate bonds	2,000	7,000	7,000	7,000	7,000	1,112
Tax payable	5,091	11,370	908	1,483	1,232	196
Total liabilities	**195,177**	**183,143**	**210,571**	**235,608**	**250,335**	**39,774**
Shareholders equity	**173,823**	**197,295**	**206,437**	**205,661**	**205,898**	**32,714**
Share capital	1,437	2,329	2,310	2,310	2,311	367

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	As of or for the year ended December 31					
	2007 (Restated)(1) RMB	2008 (Restated)(1) RMB	2009 (Restated)(1) RMB	2010 (Restated)(1) RMB	2011 RMB	2011 US$(2)
	(in millions, except for per share data)					
Other Financial Data:						
CONTINUING OPERATIONS						
Net cash inflow from operating activities of continuing operations	68,855	57,296	57,732	66,376	66,491	10,565
Net cash outflow from investing activities of continuing operations	(54,749)	(61,030)	(85,310)	(76,619)	(82,970)	(13,183)
Net cash (outflow)/inflow from financing activities of continuing operations	(22,834)	(28,786)	30,197	19,824	8,988	1,428
Net cash (outflow)/inflow from continuing operations	**(8,728)**	**(32,520)**	**2,619**	**9,581**	**(7,491)**	**(1,190)**
DISCONTINUED OPERATIONS(4)						
Net cash inflow from operating activities of discontinued operations	837	656	-	-	-	-
Net cash (outflow)/inflow from investing activities of discontinued operations(7)	(25)	29,489	(5,039)	5,121	-	-
Net cash outflow from financing activities of discontinued operations	-	-	-	-	-	-
Net cash inflow/(outflow) from discontinued operations	**812**	**30,145**	**(5,039)**	**5,121**	**-**	**-**
Net (decrease)/increase in cash and cash equivalents	**(7,916)**	**(2,375)**	**(2,420)**	**14,702**	**(7,491)**	**(1,190)**
Dividend declared per share	**0.20**	**0.20**	**0.16**	**0.08**	**0.10**	**0.02**

(1) The comparative financial data prior to January 1, 2011 presented herein was restated to reflect the effects of 2011 Acquisition and the change in accounting policy for property, plant and equipment upon the adoption of amended IFRS/HKFRS 1 in 2011. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) The translation of RMB into U.S. dollars has been made at the rate of RMB6.2939 to US$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2011. The translations are solely for the convenience of the reader.

(3) Includes fixed-line upfront connection fees for basic telephone access services that were eliminated by order of the former Ministry of Information Industry in July 2001.

(4) Results of our CDMA business have been disclosed as discontinued operations for the years ended December 31, 2007 and 2008.

(5) See Note 38 to our consolidated financial statements included elsewhere in this annual report on Form 20-F on how basic and diluted earnings per share are calculated under IFRS/HKFRS.

(6) Earnings per ADS is calculated by multiplying earnings per share by 10, which is the number of shares represented by each ADS.

(7) See Note b of the consolidated statement of cash flows to our consolidated financial statements included elsewhere in this annual report on Form 20-F on the cash flows from discontinued operations in 2009 and 2010.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. Prior to January 1, 2009, the exchange rate refers to the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board, or the daily exchange rate. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2011 (RMB6.2939 to US$1.00 and HK$7.7663 to US$1.00). These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

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The daily exchange rates were RMB6.3080 = US$1.00 and HK$7.7607 = US$1.00, respectively, on April 20, 2012. The following table sets forth the high and low daily exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Exchange Rate

	RMB per US$1.00		HK$ per US$1.00	
	High	**Low**	**High**	**Low**
October 2011	6.3825	6.3534	7.7884	7.7634
November 2011	6.3839	6.3400	7.7957	7.7679
December 2011	6.3733	6.2939	7.7851	7.7663
January 2012	6.3330	6.2940	7.7674	7.7538
February 2012	6.3120	6.2935	7.7559	7.7532
March 2012	6.3315	6.2975	7.7678	7.7551
April 2012 (up to April 20, 2012)	6.3150	6.2975	7.7660	7.7580

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2007, 2008, 2009, 2010 and 2011, calculated by averaging, in the case of 2007 and 2008, the noon buying rates, or in the case of 2009 to 2011, the daily exchange rate, on the last day of each month during the relevant years.

Average Exchange Rate

	RMB per US$1.00	HK$ per US$1.00
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Business

We face intense competition in all our businesses from other telecommunications service providers, including China Mobile and China Telecom, which may materially adversely affect our financial condition, results of operations and growth prospects.

The telecommunications industry in China has been rapidly evolving. Following the restructuring of the PRC telecommunications industry in 2008, we, along with China Mobile and China Telecom, have become full-service telecommunications service providers that operate both fixed-line and mobile telecommunications networks in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry under Item 4. We face intense competition in each of our business lines from China Mobile and China Telecom and expect that this competition will further intensify and may also include other telecommunications service providers in the future.

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For mobile business, China Mobile is the largest mobile operator in China, while China Telecom has become a new competitor after acquiring our CDMA business in the 2008 industry restructuring. In the emerging 3G mobile market, we face intense competition from the other two operators. For fixed-line business, we are a leading fixed-line operator in northern China, but remain relatively small in southern China, where China Telecom has a dominant market position. We also face increasing competition from competitors outside the telecommunications industry, such as cable television companies for fixed-line broadband business. Furthermore, the PRC Government is in the process of initiating new policies, in particular, the policies regarding the convergence of television broadcast, telecommunications and Internet access networks and the policies that would allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers in certain areas in China. Although these new initiatives may present opportunities for us to attract new users, they also pose additional uncertainties to the competition in mobile business in China, and we cannot assure you that our business will not be adversely affected by such initiatives.

Intensive competition from China Mobile and China Telecom, as well as other telecommunications service providers, could lead to slower subscriber growth, lower traffic volume of our telecommunications services, continued price pressure and higher customer acquisition costs, which may materially adversely affect our financial condition, results of operations and growth prospects.

We may continue to lose subscribers, in particular, fixed-line services subscribers, which may materially adversely affect our financial condition, results of operations and growth prospects.

We continue to lose fixed-line services subscribers due to the trend of mobile service substitution for fixed-line services. Consistent with trends in global markets in recent years, significant traffic from our fixed-line networks has been diverted to mobile networks, including mobile networks of other mobile operators. While we have been taking various measures to retain our fixed-line subscribers, we cannot assure you that we will be successful in mitigating the adverse impact of mobile service substitution for fixed-line telephone services. Although we have experienced net increases in the total number of mobile subscribers in recent years, we may experience loss of mobile subscribers, especially GSM mobile subscribers, in the future due to intensified competition from other mobile operators and increased migration of GSM mobile subscribers to 3G networks. If we lose a significant number of fixed-line and mobile subscribers, our relevant market share may be materially and adversely affected and our costs of additional customer acquisitions and bad debts may increase, which would materially adversely affect our financial condition, results of operations and growth prospects.

Competition from foreign-invested operators and other new entrants may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition, results of operations and growth prospects.

As a result of China s accession to the World Trade Organization, or WTO, in December 2001 and the adoption of the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises in January 2002, which implement China s commitments to the WTO, the PRC Government has agreed to gradually liberalize the various segments and regions of the telecommunications market in China to foreign investors. Currently, foreign investors are permitted to own up to 49% of joint ventures that offer basic telecommunications services without any geographic restrictions in China and up to 50% of joint ventures that offer value-added telecommunications services without any geographic restrictions in China. More foreign-invested operators may enter China s telecommunications market as a result of this liberalization. They may have greater financial, managerial and technical resources and more expertise in network management and sales and marketing than we do.

Increased competition from these and other new entrants into the Chinese telecommunications market may further increase the competition for skilled and experienced employees, exacerbate price competition and increase our customer acquisition costs and other operating expenses, and thereby adversely affect our financial condition, results of operations and growth prospects.

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Failure to respond to technological and industry developments in a timely and effective manner or failure to continually optimize, expand and upgrade our networks and infrastructure could materially adversely affect our competitive position and hinder our growth.

The telecommunications industry in China and elsewhere in the world has been experiencing rapid and significant changes in the diversity and sophistication of the technologies and services offered. Such changes may render our existing services or technologies inadequate or obsolete. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services to respond to such changes in order to maintain our competitiveness, which typically involves substantial time, costs and risk. We cannot assure you that we will be able to respond to technological and industry developments in a timely and cost-effective manner, or at all. Our inability to respond successfully to technological or industry developments may adversely affect our financial condition, results of operations and growth prospects. Furthermore, if the new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth may decline and our competitive position may be adversely affected.

In addition, the growth of our business, particularly the mobile business, depends on whether we are able to continue to optimize the capacity, expand the coverage and improve the quality of, and upgrade our existing networks and infrastructure in a timely and effective manner. Our failure to do so could result in loss of our customers and thus materially adversely affect our competitive position and hinder our growth.

Our ability to expand and upgrade our networks and infrastructure is subject to a number of uncertainties, including our ability to achieve the following on a timely basis and on acceptable terms:

- manage technology migration in an effective manner, including effectively responding to a shortage of available Internet Protocol version 4 addresses and timely developing 3GPP Long Term Evolution, or LTE, or other fourth generation mobile telecommunications technologies;
- obtain adequate financing;
- obtain relevant government licenses, permits and approvals;
- obtain adequate network equipment and software;
- retain experienced management and technical personnel;
- obtain sufficient spectrum frequencies, network numbers and other telecommunications resources controlled by the PRC Government;
- gain access to the sites for network construction or upgrade; and
- enter into interconnection and other arrangements with other operators.

If we are not able to timely and effectively overcome the uncertainties and difficulties we may encounter in expanding and upgrading our networks and infrastructure, our competitive position, financial condition, results of operations and growth prospects may be materially adversely affected.

The successful development of our 3G business is subject to market demand, consumer acceptance, technological challenges, competition on service fees, handset subsidies and other marketing expenses, other uncertainties, expected benefits from investments in our 3G networks and technology may not be realized and our business may be adversely affected due to the competitive nature between 3G services and 2G mobile business and fixed-line broadband services in the industry.

We commercially launched our 3G service in October 2009 and we are still making investments in our 3G networks. As is common with undertakings of this scale and complexity, we may experience various difficulties in the development of our 3G business, including software, network, handset and other technical issues. While we generally believe we are capable of solving these issues, we cannot assure you that we will be able to do so in a timely fashion or that we will not encounter other difficulties. Moreover, we cannot assure you that:

- we will be able to gain access to sufficient sites for 3G network expansion;

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- there will be sufficient demand for 3G services;
- our 3G services will be more popular among potential subscribers than those of our competitors;
- we will not encounter unexpected technological difficulties in implementing the WCDMA technology; or
- our 3G services will generate an acceptable or commercially viable rate of return.

Any failure or delay in completing and expanding our 3G networks, any increase in the associated costs (including the costs and expenses that may be incurred as a result of the changes of our marketing and sales policies, including handsets subsidies, to meet the market demand), or any problem encountered in our operations of 3G business could hinder the recovery of our significant capital investment in the 3G business, which could in turn have a material adverse effect on our financial condition, results of operations and growth prospects. For example, 3G handsets subsidy cost was RMB5.79 billion in 2011, representing an increase by 82.6% from RMB3.17 billion in 2010, primarily due to the significant increase in the number of subscribers of our 3G bundled packages, of which we subsidize the handsets, as a result of our efforts in developing 3G business. If our 3G handsets subsidy cost continues to increase without corresponding increase in the relevant service revenue, the profitability of our 3G business would reduce. Furthermore, we expect to spend approximately RMB35.5 billion, representing 35.5% of our capital expenditure in 2012, on 3G network expansion and upgrade, which may significantly increase our depreciation and amortization expenses in future periods, thereby adversely affecting our profitability.

In addition, we expect that 3G services will compete with 2G services and fixed-line broadband as an industry trend in the future. Therefore, while we continue to promote our 3G business, we cannot assure you that our 2G business and fixed-line broadband will not be adversely affected by the industry-wide competition.

Because we rely on arrangements with other telecommunications operators, changes to the terms or availability of these arrangements may result in disruptions to our services and operations and may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

Our ability to provide telecommunications services depends upon arrangements with other telecommunications operators. In particular, interconnection is necessary to complete all calls between our subscribers and subscribers of other telecommunications operators. We, either through ourselves or through Unicom Group, have established interconnection and transmission line leasing arrangements with other telecommunications operators, including our parent company, as required to conduct our current business. Any disruption to our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect may affect our operations, service quality and customer satisfaction, thus adversely affecting our business. Furthermore, we are generally not entitled to collect indirect or consequential damages resulting from disruptions in the networks with which we are interconnected. Any disruption in existing interconnection arrangements and leased line arrangements or any significant change of their terms, as a result of natural events or accidents or for regulatory, technical, competitive or other reasons, may lead to temporary service interruptions and increased costs that can seriously jeopardize our operations and adversely affect our financial condition, results of operations and growth prospects. Difficulties in executing alternative arrangements with other operators on a timely basis and on acceptable terms, including the inability to promptly establish additional interconnection links or increase interconnection bandwidths as required, could also materially adversely affect our financial condition, results of operations and growth prospects.

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Interruptions to our networks and operating systems or to those with which we interconnect, including those caused by natural disaster and service maintenance and upgrades, may disrupt our services and operations and may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

Our network infrastructure and the networks with which we interconnect are vulnerable to potential damages or interruptions from floods, wind, storms, fires, power loss, severed cables, acts of terrorism and similar events. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other failure of our networks or systems, or the networks to which we are interconnected, may result in consequential interruptions in services across our telecommunications infrastructure. For example, in May 2008, an earthquake registering 8.0 on the Richter scale struck Sichuan Province and its neighboring areas in China. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment, including our base stations, in the affected areas sustained extensive damage, leading to service stoppage and other disruptions in our operations in those areas. Any future natural disasters may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our services and operations. Moreover, our networks and systems and the networks with which we interconnect also require regular maintenance and upgrades. Such maintenance and upgrades may cause service disruptions. Network or system failures, as well as high traffic volumes, may also affect the quality of our services and cause temporary service interruptions. Any such future occurrence may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be materially adversely affected.

We continue to have a significant level of capital expenditure and debt service requirements necessary to implement our business strategies. We plan to spend approximately RMB100 billion for capital expenditure in 2012, which would represent a 30.4% increase compared to the actual capital expenditure in 2011. This is primarily due to expected increases in investments in our 3G and fixed-line broadband network, as well as infrastructure and transmission network. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our wholly-owned subsidiary, CUCL, completed the issue of two tranches of commercial paper for the year of 2011 in an amount of RMB15 billion and RMB8 billion at an interest rate of 5.23% and 5.78% per annum, respectively, as well as the issue of five tranches of super & short-term commercial paper for the year of 2011 in an amount of RMB8 billion, RMB8 billion, RMB4 billion, RMB4 billion and RMB15 billion at an interest rate of 3.88%, 3.88%, 5.35%, 5.35% and 4.65% per annum, respectively. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. Even if we obtain such financing, our financing cost may increase significantly as a result of additional financing or higher interest rate. See Liquidity and Capital Resources under Item 5. Our failure to do so may adversely affect our financial condition, results of operations and growth prospects. Our ability to obtain acceptable financing at any time may depend on a number of factors, including, among others:

- our financial condition and results of operations;
- our creditworthiness and relationship with lenders;
- changes in credit policies, other government or banking policies that may affect credit markets in China;
- conditions of the economy and the telecommunications industry in China;
- conditions in relevant financial markets in China and elsewhere in the world; and
- our ability to obtain any required government approvals for our financings.

We may experience further declines in ARPU for our telecommunications services.

In 2011, the ARPU for our mobile business increased by 8.2% from 2010, primarily because (i) the ARPU for our 3G business is significantly higher than that of our 2G business and (ii) the number of our 3G subscribers has increased as a percentage of the total number of our mobile subscribers. However, we have been experiencing declining ARPU for each of our GSM mobile services, 3G mobile services and fixed-lined business, mainly due to (i) the pricing competition with other telecommunications operators in China; (ii) downward adjustments on some of the telecommunications tariffs by the PRC Government (which may continue in the future); (iii) many new subscribers are users with lower usage of telecommunications services; and (iv) the substitution effect of mobile Internet, such as instant mobile communication applications. Our current GSM mobile services, 3G mobile services and fixed-lined services may continue to experience declining ARPU in the foreseeable future, which could have a material adverse effect on our financial condition and results of operations. Although we have been making efforts to mitigate those effects by allocating more resources to diversify our service offerings, particularly the value-added services, to encourage more usage of our services and developing our high-end customers, we cannot assure you that these efforts will be able to achieve the anticipated results.

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Our controlling shareholder, Unicom Group, can exert influence on us and cause us to make decisions that may not always be in the best interests of us or our other shareholders and may fail to provide services and facilities that we rely on to operate our business.

Unicom Group indirectly controlled an aggregate of 71.01% of our issued share capital as of April 20, 2012 and all of our executive directors also serve as directors or executive officers of Unicom Group. As our controlling shareholder, subject to our articles of association and applicable laws and regulations, Unicom Group is effectively able to control our management, policies and business by controlling the composition of our board of directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. The interests of Unicom Group as our controlling shareholder may conflict with our interests or the interests of our other shareholders. As a result, Unicom Group may cause us to enter into transactions or take (or fail to take) other actions or make decisions that may not be in our or our other shareholders best interests.

In addition, our operations depend on a number of services and facilities provided by Unicom Group. For example, following our acquisition of the fixed-line business in 21 provinces in southern China in January 2009, we began leasing fixed-line networks from Unicom Group for our fixed-line business operations in those provinces. Unicom Group also provides us with international gateway services, interconnection services, sales agency and collection services and provision of premises. See B. Related Party Transactions under Item 7 and A. History and Development of the Company under Item 4. The interests of Unicom Group as provider of these services and facilities may conflict with our interests. Failure by Unicom Group to fulfill its obligations under any of these arrangements may have a material adverse effect on our business operations. We currently have limited alternative sources of supply for these services and facilities and, as a result, may have limited ability to negotiate with Unicom Group regarding the terms for providing these services and facilities. Changes in the availability, pricing or quality of these services or facilities may have a material adverse effect on our business and profitability.

The previous internal reorganization of Unicom Group for the A Share offering created a two-step voting mechanism that requires the approval of the minority shareholders of both our Company and China United Network Communications Limited (formerly known as China United Telecommunications Corporation Limited), or the A Share Company, for significant related party transactions between us and Unicom Group.

In October 2002, Unicom Group completed an internal reorganization of its shareholding in our company and the initial public offering in China of its then newly established subsidiary, the A Share Company. As part of this restructuring, a portion of Unicom Group s indirect shareholding in our company was transferred to the A Share Company, whose business is limited to indirectly holding the equity interest of our company without any other direct business operations. A voting mechanism was established to allow public shareholders of the A Share Company to indirectly participate in our shareholders meetings and a two-step voting mechanism was established for the approval of related party transactions. As a result, any significant related party transaction between us or our subsidiaries and Unicom Group or its other subsidiaries will require the separate approval of the independent minority shareholders of both our company and the A Share Company. Related party transactions approved by our independent minority shareholders nevertheless cannot proceed if they are not approved by the independent minority shareholders of the A Share Company. This adds another necessary step of approval process for those transactions. See A. History and Development of the Company Two-Step Voting Arrangements under Item 4.

Investor confidence and the market prices of our shares and ADSs may be materially and adversely impacted if we are or our independent registered public accounting firm is unable to conclude that our internal control over financial reporting is effective in future years as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are a public company in the United States that is subject to the Sarbanes-Oxley Act of 2002. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we include in this annual report a report of management on our internal control over financial reporting and an attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting.

As of December 31, 2011, our management conducted an assessment of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting as of December 31, 2011 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing on page F2. However, we cannot assure you that, in the future, our management will continue to conclude that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective for future periods, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated, reviewed or evaluated, or if the independent registered public accounting firm interprets the relevant requirements, rules or regulations differently from us, then it may issue an adverse opinion. Any of these possible outcomes in the future could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which could materially adversely affect the market prices of our shares and ADSs.

Moreover, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including through a failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our shares and ADSs.

Our outstanding convertible bonds may dilute the ownership interest of existing shareholders and may adversely affect the market price of our ordinary shares.

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, completed the issue of the 2015 Convertible Bonds, which are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK$15.85 per share, subject to certain adjustments. As of April 20, 2012, none of the 2015 Convertible Bonds has been converted into our ordinary shares. Assuming a full conversion of the 2015 Convertible Bonds at the initial conversion price of HK$15.85 per share, the bonds would be convertible into 899,979,487 ordinary shares, representing approximately 3.68% of our enlarged issued and outstanding share capital as of April 20, 2012.

The conversion of the 2015 Convertible Bonds, if converted in full or in part, would dilute the ownership interest of our existing shareholders and our earnings per share, and could adversely affect the market price of our shares. Even if the 2015 Convertible Bonds are not converted, their existence may encourage the short selling of our ordinary shares by the holders of the 2015 Convertible Bonds as well as other market participants, depressing the price of our ordinary shares.

The NDRC is conducting an anti-monopoly investigation relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. The outcome of this investigation may subject us to a fine, and harm our reputation, which could adversely affect the prices of our shares and ADSs.

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The NDRC is conducting an anti-monopoly investigation relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. In response to the NDRC s investigation, we (i) provided the NDRC with pricing, volume, turnover and other information relevant to our Internet access bandwidth leasing business with Internet service providers for the year 2010, (ii) conducted a comprehensive self-inspection of our operations, and (iii) submitted to the NDRC a proposal for enhancement initiatives and an application for suspension of the NDRC s investigation. Through our comprehensive self-inspection of our operations, we have identified room for improvement in pricing management and relatively wide pricing variation, in respect of our business relating to the Internet dedicated leased line access service provided by us to the Internet service providers. In addition, the quality of interconnection between us and other backbone network operators also requires further improvement. As of the date of this annual report, the NDRC has not informed us of any results or conclusions of the investigation. If the outcome of the NDRC s investigation is not in our favor, we may be subject to a fine, and if we become the target of any negative publicity, our reputation would be harmed, which may have a material adverse effect on the prices of our shares and ADSs.

Risks Relating to the Telecommunications Industry in China

Government regulation of the telecommunications industry in China may affect our ability to respond to market conditions or competition, and may have a material adverse effect on our financial condition, results of operations and growth prospects.

As a telecommunications operator in China, we are subject to regulation by, and under the supervision of, the MIIT, which is the primary regulator of the telecommunications industry in China. The MIIT is responsible for formulating policies and regulations for the telecommunications industry, granting telecommunications licenses, allocating frequency spectrum and numbers, formulating interconnection and settlement arrangements between telecommunications operators, and enforcing industry regulations. Other PRC Governmental authorities also regulate tariff policies, capital investment and foreign investment in the telecommunications industry. See B. Business Overview Regulatory and Related Matters under Item 4. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our ability to respond to market conditions or to changes in our cost structure. Moreover, we operate our businesses pursuant to approvals granted by the State Council of the PRC, or the State Council, and under licenses granted by the MIIT. If these approvals or licenses were revoked or suspended, our business and operations would be materially adversely affected. In addition, we are subject to various regulatory requirements as to service quality, pricing and other actions, and failure to comply with such requirements may subject us to mandatory penalties or other punitive measures, any of which could have a material adverse effect on our financial condition, results of operations and growth prospects.

Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially adversely affect our financial condition, results of operations and growth prospects.

The PRC Government continues to regulate many aspects of the telecommunications industry in China. Potential changes in regulations and policies and their implementation could lead to significant changes in the overall industry environment and may have a material adverse effect on our financial condition, results of operations and growth prospects. As part of the comprehensive plan to restructure the telecommunications industry in China, the PRC Government has been adjusting and improving its regulatory oversight of the telecommunications industry, including further deregulating telecommunications tariffs.

The MIIT, under the direction of the State Council, is currently preparing a telecommunications law to provide a uniform regulatory framework for the telecommunications industry in China. As of the date of this annual report, the proposed nature and scope of the telecommunications law have not yet been officially announced by the PRC Government. The telecommunications law and other new telecommunications regulations or rules, or future changes thereto, such as enforcement of existing regulations and policies, may materially adversely affect our financial condition, results of operations and growth prospects.

Issues may also arise regarding the interpretation and enforcement of China s WTO commitments regarding telecommunications services. Any future regulatory changes, such as those relating to the issuance of additional telecommunications licenses, tariff setting, interconnection and settlement arrangements, changes in technical and service standards, universal service obligations and spectrum and number allocations, may have a material adverse effect on our business and operations.

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The PRC telecommunications industry has been extensively restructured in recent years and may be subject to further restructuring. Such further industry restructuring may materially affect the operations of all telecommunications operators in China, including us. Accordingly, we cannot predict the scope and effect of any further restructuring on our financial condition, results of operations and growth prospects.

New regulations, regulatory changes or changes in enforcement policies relating to tariffs and other aspects of telecommunications services may materially adversely affect our competitiveness, business and financial condition, results of operations and growth prospects.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services, such as mobile services, local and long distance fixed-line telephone services, managed data services, leased line services and interconnection agreements. In recent years, we have experienced significant downward adjustments on tariffs of telecommunications services as well as regulatory restrictions that have significant impacts on our tariff setting. For example: (i) in February 2008, the MIIT and the NDRC lowered the regulatory tariff cap for roaming services; and (ii) in 2009, the MIIT and the NDRC required us and other PRC telecommunications operators to offer certain fixed-line local telephone plans that are subject to a tariff cap. These changes adversely affected our revenue.

We cannot predict with accuracy the timing, likelihood or magnitude of tariff adjustments by the PRC Government or the extent or potential impact on our business of future tariff adjustments. If the PRC Government substantially lowers the tariffs for our services, our business and our financial condition, results of operations and growth prospects may be adversely affected. In particular, monthly fees on fixed-line services have recently drawn attention from customers and the PRC Government. Revenue from some of our customers has decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenue will be adversely affected if the PRC Government abolishes such monthly fees. In addition, the PRC Government is in the process of initiating detailed policies following the industry restructuring in 2008, including those that allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers and those relating to the convergence of telecommunications, Internet and television broadcast networks. Since November 2010, a growing number of cities in China have carried out trials on the switch of telecommunications operator networks with existing numbers. The potential new regulatory policies and regulations may materially adversely affect our financial condition, results of operations and growth prospects.

The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government authorities, and the MIIT has the authority to delineate the scope of universal service obligations. The MIIT, together with government finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. These rules have not yet been promulgated, and there are currently no specific regulatory requirements relating to the provision of universal services in China.

While specific universal services obligations are not yet clear, we believe that such services may include mandatory provision of basic telecommunications services in less economically developed areas in China and mandatory contribution by telecommunications service providers to a universal service fund. In addition, as part of the transitional measures prior to the formalization of a universal service obligation framework, the MIIT has required major telecommunications service providers in China, including Unicom Group, to participate in a project to provide telephone services in thousands of remote villages in China. See B. Business Overview Regulatory and Related Matters Universal Services under Item 4.

We cannot predict whether the PRC Government will specifically require us to undertake universal service obligations in the future. To the extent we are required to do so, it is currently uncertain whether we will be adequately or timely compensated by the PRC Government or by the universal service fund. We cannot assure you that we will be able to realize an adequate return on investments for expanding networks to, and providing telecommunications services in, less economically developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. We also cannot predict whether we will be required to make a contribution to the universal service fund. Any of these events may adversely affect our financial condition and results of operations.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers of our mobile services, reduce mobile service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, mobile operators have been subject to lawsuits alleging various health consequences as a result of mobile handset usage or proximity to base stations or seeking protective or remedial measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with the transmission of electromagnetic signals will not impair our ability to retain customers and attract new customers, reduce mobile service usage or result in litigation.

Risks Relating to Doing Business in China

Our operations may be materially adversely affected by changes in China s economic, political and social conditions.

Substantially all of our business operations are conducted in China and substantially all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are affected to a significant degree by economic, political and social conditions in China. The PRC economy differs from the economies of most developed countries in many respects, including with respect to the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past three decades, growth has been uneven across different regions and among various economic sectors. The PRC Government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be materially adversely affected by government control over capital investments.

In addition, the PRC Government has implemented various measures since 2011 to rein in economic growth and control inflation, such as tightening bank lending policies and cooling down the housing market. In particular, the PRC Government in March 2012 reduced its 2012 annual GDP growth target to 7.5% from 8%. If China s economic growth slows down, our subscribers usage of our services may decrease and we may experience increased difficulties in retaining existing subscribers or acquiring new subscribers, which could materially and adversely affect our business, as well as our financial condition and results of operations.

If the PRC Government revises the current regulations that allow a foreign-invested enterprise to pay foreign exchange in current account transactions, our operating subsidiary s ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted.

The ability of our major operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future foreign exchange regulations in China. The Renminbi is currently convertible by foreign-invested enterprises in China to settle transactions under the current account, which include trade and service related foreign exchange transactions and payments of dividends. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and payments on foreign loans. CUCL, which holds substantially all of our assets and through which we conduct substantially all of our business, is a foreign-invested enterprise in China. However, there is no assurance that in the future the relevant PRC government authorities will not impose any limitation on the ability of foreign-invested enterprises to purchase foreign exchange to satisfy their foreign exchange obligations or to pay dividends. In that event, CUCL s ability to satisfy its foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted and the interests of our shareholders may, in turn, be affected.

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Fluctuations in the value of the Renminbi could adversely affect the prices of our shares and ADSs as well as our profitability.

Substantially all of our revenue and costs and expenses are denominated in Renminbi, while a portion of our borrowings, equipment purchases and other capital expenditures are denominated in foreign currencies. On July 21, 2005, the PRC Government changed its decade-old policy to permit Renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies determined by the People s Bank of China, or the PBOC. On May 19, 2007, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market. With the increased floating range of the Renminbi s value against foreign currencies, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float. Increased fluctuations of the Renminbi could adversely affect the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our shares and ADSs, and therefore the price of our shares and ADSs. Any future Renminbi devaluations could also increase our equipment importation costs or lead to significant fluctuations in the exposure of our foreign-currency-denominated liabilities, thereby adversely affecting our profitability.

Uncertainties in the PRC legal system could limit the legal protections available to us and to foreign investors and materially adversely affect our financial condition, results of operations and growth prospects.

Our wholly-owned operating subsidiary, CUCL, is organized under the laws of PRC and is generally subject to laws and regulations applicable to foreign-invested enterprises in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have limited precedential value. Since 1979, the PRC Government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, property, taxation and trade. However, because these laws and regulations are relatively new, and because of the relatively limited volume of published cases and their non-binding nature, interpretation and/or enforcement of these laws and regulations involves uncertainties, which may limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties. In addition, any litigation in China may be protracted and result in costs and diversion of resources and management attention. Therefore, the protection provided by the PRC legal system may not be the same as the legal protection available to investors in the United States or elsewhere. Furthermore, various uncertainties involved in the rulemaking, interpretation and enforcement process of the laws, regulations and rules in China that are related to our business operations, in particular, those in respect of telecommunications and enterprise income tax, may also materially and adversely affect our financial condition, results of operations and growth prospects.

Since we are a Hong Kong company, you will not have certain investor rights as our shareholder, such as the right to bring legal action against other shareholders on behalf of the company.

We were incorporated in Hong Kong. The Hong Kong Companies Ordinance does not provide for any right for our shareholders, including our significant shareholders, to bring legal action against any other shareholder on our behalf to enforce any claim against such party or parties if we fail to enforce such claim ourselves.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Most of our current operations are conducted in China and most of our assets are located in China. In addition, five out of eleven of our current directors and all of our current executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court judgments. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in China of judgments of a court of the United States or any other jurisdiction, including judgments against us or our directors, executive officers, underwriters or experts, may be difficult or impossible.

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Natural disasters and health hazards in China may severely disrupt our business and operations and may severely restrict the level of economic activities in affected areas which in turn may have a material adverse effect on our financial condition and results of operations.

In 2008, we experienced severe sleet and snowstorms in southern China and a devastating earthquake in Sichuan province. Those natural disasters resulted in significant and extensive damage to our base stations and network equipment. Moreover, certain countries and regions, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, over the past several years and, more recently in 2009, the outbreak of influenza A (H1N1). In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. We are also unable to predict the effect, if any, that any other future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, natural disasters and health hazards may severely restrict the level of economic activities in affected areas, which may in turn materially adversely affect our business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.

Risk Relating to our ADSs

Holders of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs will receive proxy materials with respect to matters to be voted on at a meeting of shareholders through the depositary and may only exercise voting rights by appointing the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. Consequently, if the materials to be forwarded to holders of ADSs by the depositary are delayed or if the depositary sets deadlines by which holders of ADSs must give their instructions regarding how to vote that fall too soon after mailing of the proxy materials, the holders of our ADSs may not receive voting materials in time to instruct the depositary to vote. Thus, it is possible that such holders, or persons who hold their ADSs through brokers, dealers or other third parties, may not have the opportunity to exercise a right to vote.

Item 4. Information on the Company

A. History and Development of the Company

We were incorporated under the laws of Hong Kong on February 8, 2000 under the Companies Ordinance as a company limited by shares under the name China Unicom Limited. In connection with the telecommunications industry restructuring initiated by the MIIT, the NDRC and the Ministry of Finance of the PRC in 2008 as discussed below, we merged with China Netcom and changed our name to China Unicom (Hong Kong) Limited with effect from October 15, 2008. Following our merger with China Netcom, we became an operator providing a full range of telecommunications services, including mobile and fixed-line services, in China.

Our registered office and principal executive offices are located at 75th Floor, The Center, 99 Queen s Road Central, Hong Kong (telephone number: 852-2126-2018).

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Restructurings of the Telecommunications Industry

Since 1993, the PRC Government has implemented a number of measures to restructure and introduce competition in the telecommunications industry. Prior to July 1994, China Telecom was the sole provider of telecommunications services in China. In July 1994, Unicom Group was established in accordance with the State Council s approval to introduce orderly competition in the telecommunications industry. Since then, the PRC Government has approved Jitong Network Communications Company Limited, or Jitong, and China Netcom Corporation Ltd., or CNCL, to provide Internet protocol, or IP, telephony, Internet and data services. It has also approved China Tietong to provide most telecommunications services other than mobile services.

In 1999, the State Council approved a plan to restructure the former China Telecom along four business lines: fixed-line, mobile, paging and satellite communications. As a result of the restructuring, China Telecom retained the fixed-line, data and Internet businesses, while China Mobile assumed the mobile business previously operated by China Telecom. In 2002, the PRC Government further separated China Telecom into two companies, with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom. As a result of the PRC Government s efforts to introduce competition in the telecommunications industry, there are currently more than one service providers in most of the sectors within the telecommunications industry.

On May 24, 2008, the MIIT, the NDRC and the Ministry of Finance issued a joint announcement relating to the further reform of the PRC telecommunications industry. According to the joint announcement, the principal objectives of such further reform included, among others: (i) supporting the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications services providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom of the CDMA network (including both assets and subscriber base) then owned by Unicom Group along with us; (b) the merger between China Unicom and China Netcom; (c) the transfer of the basic telecommunications services business operated by China Satellite into China Telecom; and (d) the consolidation of China Tietong into China Mobile. The detailed implementation plans relating to these restructuring transactions were subsequently formulated by the relevant parties and, as a result, China Mobile, China Telecom and we became the current three major telecommunications operators in China, each providing a full range of telecommunications services nationwide.

Sale of CDMA Business, Merger with China Netcom and Related Transactions

Disposal of CDMA Business and Related Transactions

Pursuant to the 2008 telecommunications industry restructuring announcement, on June 2, 2008, we, CUCL and China Telecom entered into a CDMA business disposal framework agreement, under which CUCL agreed to sell, and China Telecom agreed to purchase, the CDMA business of CUCL, including (i) the entire CDMA business, which is owned and operated by CUCL, together with the assets of CUCL that are relevant to the CDMA operations and the rights and liabilities of CUCL relating to its CDMA subscribers; (ii) the entire equity interest in China Unicom (Macau) Company Limited, our wholly-owned subsidiary; and (iii) all of the 99.5% equity interest in Unicom Huasheng Telecommunications Technology Company Limited, a limited liability company incorporated under the laws of the PRC, held by CUCL.

On July 27, 2008, we, CUCL and China Telecom further entered into a CDMA business disposal agreement which set out the detailed terms and conditions of the CDMA business disposal. The consideration for the CDMA business disposal was RMB43.8 billion in cash, payable in three installments. While the consideration was subject to a price adjustment mechanism based on the CDMA service revenue generated by us for the six months ended June 30, 2007 and June 30, 2008, as agreed with China Telecom, there was no subsequent adjustment to the consideration as a result of the price adjustment mechanism.

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On July 27, 2008, in connection with the CDMA business disposal, CUCL agreed (i) to waive its right to exercise its option to purchase the CDMA network from Unicom New Horizon Mobile Telecommunications Company Limited, or Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, and (ii) to terminate the CDMA lease pursuant to which CUCL leased capacity on the CDMA network from Unicom New Horizon, in each case with effect upon the completion of the CDMA business disposal.

At our shareholders meeting held on September 16, 2008, our shareholders approved the CDMA business disposal and our independent shareholders approved the waiver by CUCL of the option to purchase the CDMA network and the termination of the CDMA lease. As all of the conditions of the CDMA business disposal as specified in the CDMA business disposal agreement had been satisfied or deemed to have been satisfied, the CDMA business disposal was completed on October 1, 2008. On that date, China Telecom became the legal owner of the CDMA business and all the rights, interests, obligations and liabilities in relation to the CDMA business have been borne by China Telecom with effect from October 1, 2008. We recognized in our statements of income for the year ended December 31, 2008 a gain on disposal of the CDMA business of approximately RMB26.1 billion, net of corresponding income tax of approximately RMB9.0 billion. For further details, see Operating Results Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 Income from Discontinued Operations under Item 5.

In connection with the CDMA business disposal, we had been notified by Unicom Group that on June 2, 2008 and July 27, 2008, Unicom Group, Unicom New Horizon and China Telecom entered into a CDMA network framework agreement and a CDMA network disposal agreement, respectively, which set out the terms and conditions, under which Unicom Group and Unicom New Horizon agreed to sell, and China Telecom agreed to purchase, the CDMA network at a consideration of RMB66.2 billion. The disposal of the CDMA network was completed concurrently with our CDMA business disposal, on October 1, 2008.

Merger with China Netcom and Related Transactions

Merger with China Netcom

On October 15, 2008, following the approval of the merger by our shareholders and the shareholders of China Netcom at shareholders meetings held on September 16, 2008 and September 17, 2008, respectively, and the satisfaction of all other conditions, the merger between China Unicom and China Netcom by way of a scheme of arrangement of China Netcom under Section 166 of the Hong Kong Companies Ordinance became effective. Upon the merger becoming effective, all ordinary shares of China Netcom outstanding at 5:00 p.m., Hong Kong time, on October 14, 2008 and all outstanding options to acquire China Netcom shares granted under the share option scheme of China Netcom were cancelled and new China Netcom shares were issued to us. As a result, China Netcom became our wholly-owned subsidiary and the listings of China Netcom s ordinary shares and ADSs on the HKSE and the NYSE, respectively, were withdrawn.

In connection with our merger with China Netcom, each holder of China Netcom shares was entitled to receive 1.508 of our new ordinary shares for every cancelled China Netcom share and each holder of Netcom ADSs was entitled to receive 3.016 of our new ADSs for every cancelled China Netcom ADS. A total of 10,102,389,377 of our new ordinary shares (including ordinary shares underlying our newly issued ADSs) were issued to China Netcom s shareholders as consideration for the cancellation of the China Netcom shares held by China Netcom shareholders.

Furthermore, we adopted a special purpose share option scheme, pursuant to which we have granted new Unicom options to the holders of China Netcom options in consideration for the cancellation of their outstanding Netcom options (whether vested or not). The number of Unicom options granted and the exercise price of such options were determined in accordance with a formula which ensures that the value of the Unicom options received by a holder of Netcom options is equivalent to the value determined by deducting the exercise price of the relevant Netcom option from the value of HK$27.87 per Netcom share. See E. Share Ownership Stock Incentive Schemes Special Purpose Share Option Scheme under Item 6 for further details.

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As a result of our merger with China Netcom, we have become an operator providing a full range of telecommunications services, including mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services, to our customers through our two business segments comprised of mobile services and fixed-line services. Following the merger, we have taken measures to combine the respective experience and technologies of Unicom and China Netcom and develop business strategies, taking into account current market developments, to promote business innovation and competitiveness and to improve operating and financial performance. By combining the resources and business strengths of Unicom and China Netcom in different areas, we seek to become a world-class provider of telecommunications services, in particular in fixed-line broadband communications and information services, establish competitive advantages in our technologies, products and services and provide professional and multi-tiered information services to satisfy the changing and diverse needs of the telecommunications market in China.

Change of Company Name

Upon our merger with China Netcom becoming effective on October 15, 2008, our name changed from China Unicom Limited to China Unicom (Hong Kong) Limited . Our stock trading code on the HKSE and our ticker symbol on the NYSE remain unchanged.

Related Transactions

As part of our integration with China Netcom, our wholly-owned subsidiary, CUCL, merged with China Netcom (Group) Company Limited, or CNC China, a wholly-owned subsidiary of China Netcom, in January 2009, and upon that merger becoming effective, CUCL assumed all the rights and obligations of CNC China, and all the assets, liabilities and business of CNC China were vested in CUCL. In addition, in January 2009, Unicom Group, our parent company, merged with and absorbed Netcom Group, the parent company of China Netcom. Upon completion of the merger between Unicom Group and Netcom Group, Unicom Group assumed all the rights and obligations of Netcom Group, and all the assets, liabilities and business of Netcom Group have vested in Unicom Group.

History and Corporate Development of China Netcom

China Netcom was incorporated in Hong Kong on October 22, 1999, under the Hong Kong Companies Ordinance as a company limited by shares under the name Target Strong Limited. The company changed its name to China Netcom (Hong Kong) Corporation Limited on December 9, 1999, to China Netcom Corporation (Hong Kong) Limited on August 4, 2000, and to China Netcom Group Corporation (Hong Kong) Limited on July 23, 2004 (the last name change in anticipation of its IPO in 2004).

China Netcom s principal operating subsidiary, CNC China, which merged with, and was absorbed by, CUCL in January 2009, was incorporated as a PRC limited liability company in August 1999 by its four founders and shareholders, the Academy of Sciences, INC-SARFT, CRTC and Shanghai Alliance, as a facilities-based telecommunications operator in China. China Netcom was established in October 1999 to facilitate investments by foreign investors, including CNC Fund, L.P., in CNC China. Shortly thereafter, the four founders, using their respective equity interests in CNC China as capital contributions, established China Netcom (Holdings) Company Limited, or China Netcom Holdings, which in turn contributed its entire interests in CNC China through CNC BVI to China Netcom. China Netcom, through China Netcom Corporation International Limited, established Asia Netcom in 2002. Asia Netcom remained inactive until it acquired substantially all the assets, including cash, and most of the subsidiaries, of the former Asia Global Crossing Ltd. by the end of 2003.

China Netcom successfully completed its IPO in November 2004 with the listing of its ordinary shares on the HKSE and ADSs, each representing 20 of its ordinary shares, on the NYSE.

In October 2005, China Netcom acquired from CNC BVI the entire equity interests of China Netcom Group New Horizon Communications Corporation (BVI) Limited, or CNC New Horizon BVI, which merged into CNC China in November 2006. As a result of the merger, China Netcom acquired the fixed-line telecommunications assets and related liabilities in Heilongjiang Province, Jilin Province, the Inner Mongolia Autonomous Region and Shanxi Province. In August 2006, China Netcom sold the entire equity interest in Asia Netcom, which then provided international telecommunications services in the Asia-Pacific region, to Connect Holdings Limited. In February 2007, China Netcom sold its telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality to Netcom Group. In December 2007, China Netcom s wholly-owned subsidiary, China Netcom Group System Integration Limited Corporation, or China Netcom System Integration, acquired the entire equity interest in Design Institute from China Netcom Group Beijing Communications Corporation, a wholly-owned subsidiary of Netcom Group, in order to develop two of its key information and communication technologies, or ICT, services.

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Our Parent Company and Our Initial Public Offering

Our ultimate controlling shareholder is Unicom Group, a company incorporated under the laws of the PRC and majority-owned by the PRC Government. Unicom Group was established in accordance with the State Council s approval to introduce orderly competition in the telecommunications industry in 1994.

Unicom Group transferred certain of its telecommunications assets, rights and liabilities to CUCL (which became our wholly-owned subsidiary in China) in April 2000 in preparation for our IPO. In June 2000, we successfully completed our IPO. Our ordinary shares are listed on the HKSE and our ADSs, each representing ten of our ordinary shares, are listed on the NYSE.

Unicom Acquisitions and Sales

In December 2002 and December 2003, respectively, we completed our acquisitions from Unicom Group of 100% of the equity interests in Unicom New Century and Unicom New World, both of which held mobile telecommunications operations (including GSM assets and business and CDMA business) in various provinces and autonomous regions in China. Subsequent to the completion of those acquisitions, Unicom New Century and Unicom New World merged into CUCL in July 2004 and September 2005, respectively.

In March 2003, we completed the sale to Unicom Group of the entire equity interest of Guoxin Paging Corporation Ltd., which at the time of transfer was engaged in paging business.

In September 2004, we acquired from Unicom Group of 100% of the equity interest in China Unicom International Limited, or Unicom International, a limited liability company established in Hong Kong and engaged in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. In September 2009, the name of China Unicom International Limited was changed to China Unicom (Hong Kong) Operations Limited. Unicom International s wholly-owned U.S. subsidiary, China Unicom USA Corporation, is engaged in the wholesale business of voice traffic between the United States and PRC. In August 2009, the name of China Unicom USA Corporation changed into China Unicom (Americas) Operations Limited upon the completion of its merger with China Netcom (USA) Operations Limited, a subsidiary of China Netcom.

In October 2004, we established China Unicom (Macau) Company Limited, or Unicom Macau, in Macau, which then provided CDMA mobile services to local CDMA users in Macau. In connection with the disposal of our CDMA business in October 2008, we sold the entire equity interest in Unicom Macau to China Telecom along with our other CDMA business and certain related assets.

In July 2005, CUCL and Unicom Xingye Science and Technology Trade Co., Ltd., or Unicom Xingye, a subsidiary of Unicom Group, incorporated Unicom Huasheng. Unicom Huasheng was principally engaged in the sales of CDMA handsets and telecommunications equipment and the provision of technical services for us. In connection with the disposal of our CDMA business in October 2008, CUCL sold all of the 99.5% equity interest it held in Unicom Huasheng to China Telecom.

In December 2007, we completed the acquisition from Unicom Group of the mobile telecommunications operations (including GSM assets and business and CDMA business) of its Guizhou Province branch. As a result of the acquisitions of Unicom New Century, Unicom New World and Unicom Guizhou, we extended our GSM and CDMA mobile businesses to all provinces, autonomous regions and municipalities across China.

On August 19, 2008, CUCL established a wholly-owned subsidiary, Unicom Huakai Telecommunications Company Limited, or Unicom Huakai, as a limited liability company under the laws of the PRC. Unicom Huakai is principally engaged in the sales of handsets and telecommunications equipment and the provision of technical services. The paid-in capital of Unicom Huakai is RMB500 million. On December 26, 2008, the name of Unicom Huakai was changed to Unicom Vsens Telecommunications Company Limited.

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Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China

Following the approval by our independent shareholders and the shareholders of the A Share Company and upon the satisfaction of all other conditions, in January 2009, we completed our acquisitions, through CUCL, of certain telecommunications business and assets from Unicom Group and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009), including:

- the fixed-line business across 21 provinces in southern China operated by Unicom Group and Netcom Group and/or their respective subsidiaries and branches (but not the underlying fixed assets) and the local access telephone business in Tianjin Municipality operated by Unicom Group and related fixed assets (other than land and buildings) necessary for the operation of such local access telephone business and/or respective subsidiaries and branches;

- the backbone transmission assets in 10 provinces in northern China owned by Netcom Group and/or its subsidiaries;

- 100% of the equity interest in Unicom Xingye, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group;

- 100% of the equity interest in China Information Technology Designing & Consulting Institute Company Limited, or CITC, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group; and

- 100% of the equity interest in New Guoxin Telecom Corporation of China Unicom, or New Guoxin, a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Unicom Group.

The total consideration for the above acquisitions is approximately RMB4.43 billion, payable in cash. Following the completion of these acquisitions, the coverage of our fixed-line services expanded to all 31 provinces, autonomous regions and municipalities across China. We believe that these acquisitions will help integrate and optimize our business and resources and enhance our overall competitive position.

In addition, in order to operate the fixed-line business in the 21 provinces in southern China, on December 16, 2008, CUCL entered into a network lease agreement, or the initial network lease agreement, with Unicom Group, Netcom Group and Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to lease on an exclusive basis the telecommunications networks in those provinces, which are held by Unicom New Horizon and are necessary for the operation of the fixed-line business in southern China. The initial network lease agreement became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China and was for an initial term of two years effective from January 2009. On October 29, 2010, CUCL entered into a network leasing agreement or, the 2011-2012 network lease agreement, with Unicom New Horizon, which became effective on January 1, 2011. The 2011-2012 network lease agreement is for an initial term of two years effective from January 1, 2011 and is renewable at the option of CUCL with at least two months prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties. The annual lease fee payable by CUCL under the 2011-2012 network lease agreement for the years ending December 31, 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively. In connection with the 2011-2012 network lease agreement, Unicom New Horizon also granted CUCL an option, but not an obligation, to purchase the telecommunications networks leased in southern China. The purchase option may be exercised, at the discretion of CUCL, at any time during the term of the lease. No premium has been paid or will be payable by CUCL for such purchase option. In the event that CUCL elects to exercise this purchase option, the parties will discuss and negotiate the purchase price with reference to the appraised value of the telecommunications networks in southern China, which is to be determined in accordance with applicable laws of Hong Kong and the PRC, after taking into account the prevailing market conditions and other factors. Under the 2011-2012 network lease agreement, CUCL is responsible for the ongoing cost and expenses incurred in respect of the maintenance and management which may arise from the use of the leased telecommunications networks in southern China.

2011 Acquisition

In December 2011, we completed our acquisitions through Broadband Online, a wholly-owned subsidiary of CUCL, of the entire equity interest in Unicom NewSpace from Unicom Group for a total cash consideration of RMB158 million. Unicom NewSpace primarily engages in mobile value-added business in China.

Mutual Investment with Telefónica, S.A.

On September 6, 2009, we entered into a share subscription agreement with Telefónica, S.A., or Telefónica, one of our shareholders, to strengthen our cooperation. Pursuant to this agreement, we and Telefónica agreed to make a mutual investment in the amount of the equivalent of US$1 billion in each other through acquisitions of shares in the other party. On October 21, 2009, we and Telefónica completed such mutual investments which were implemented by way of the subscription by Telefónica of 693,912,264 new ordinary shares in the capital of our company at a price of HK$11.17 each and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica at a price of Euro17.24 each to us. In addition, on September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party by cooperation based on our respective networks, business model and experience.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly-owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for aggregate consideration of approximately US$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

Share Repurchase from SK Telecom

On September 25, 2009, we received a conditional irrevocable offer from SK Telecom Co., Ltd. for sale, and we repurchased from SK Telecom by way of an off-market share repurchase of 899,745,075 shares, which comprised all of our shares previously owned by SK Telecom. The consideration for this share repurchase was approximately HK$9.99 billion, HK$11.105 for each share repurchased, and was paid in cash. The share repurchase was completed on November 5, 2009 and the 899,745,075 repurchased shares were subsequently cancelled by our company.

Our Relationship with Unicom Group

Unicom Group holds the licenses required for our telecommunications businesses and we derive our rights to operate our businesses from our status as a subsidiary of Unicom Group. Unicom Group undertook to hold and maintain all licenses received from the MIIT in connection with our businesses solely for our benefit during the term of such licenses and at no cost to us. In addition, Unicom Group undertook to take all actions necessary to obtain and maintain for our benefit such governmental licenses or approvals as we shall require to continue to operate our businesses. Unicom Group also agreed not to engage in any business which competes with our businesses other than the then-existing competing businesses of Unicom Group and to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service. Finally, Unicom Group also gave us an undertaking not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future, except through us.

In connection with the restructuring of Unicom Group and the acquisitions of Unicom New Century, Unicom New World and Unicom International, we entered into a number of agreements with Unicom Group pursuant to the two-step process described in A. Development and History of the Company Two-Step Voting Arrangements below. These agreements expired on December 31, 2010. On October 29, 2010, CUCL and Unicom Group entered into a new comprehensive services agreement, or the 2010 comprehensive services agreement, to provide certain services and facilities to each other for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013. See B. Related Party Transactions under Item 7 for a detailed description of our agreements with Unicom Group.

Set forth below is our shareholding structure and significant subsidiaries as of April 20, 2012.

Two-Step Voting Arrangements

As a result of a series of internal restructurings of Unicom Group s shareholding in us following our IPO, Unicom BVI became our direct controlling shareholder, which in turn is directly controlled by the A Share Company and indirectly controlled by the Unicom Group. The A Share Company s business is limited to indirectly holding the equity interest in Unicom without any other direct business operations. The A Share Company was listed on the Shanghai Stock Exchange in 2002. In order to allow public shareholders of the A Share Company to indirectly participate in our shareholders meeting, a voting mechanism was designed in accordance with the articles of association of Unicom BVI and the A Share Company. Under this voting mechanism, before Unicom BVI votes on certain proposals at our shareholders meeting, the A Share Company must first convene a shareholders meeting to consider the same proposals in order to direct Unicom BVI to vote the shares in our company indirectly held by the A Share Company through Unicom BVI. Unicom Group can similarly direct the voting in respect of its direct equity interest in Unicom BVI.

The voting mechanism described above, however, will not apply to the approval process for any related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries, on which Unicom BVI will not be permitted to vote under the Rules Governing the Listing of Securities on HKSE, or the HKSE Listing Rules. Those related party transactions would require the separate approvals of the public shareholders of each of our company and the A Share Company. We and the A Share Company therefore created the two-step voting arrangements, pursuant to which each related party transaction between us or our subsidiaries and Unicom Group or its subsidiaries will consist of an initial agreement and a further agreement. The initial agreement would be entered into by Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) on the one hand and the A Share Company or Unicom BVI on the other hand. The initial agreement would contain the following terms:

- the closing of the initial agreement would be subject to (i) the successful transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries, and (ii) the approval of the further agreement by our independent shareholders; and

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Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) would agree and acknowledge that all rights and obligations under the initial agreement can be transferred to us or our subsidiaries without any further consent requirements.

The initial agreement will constitute a related party transaction of the A Share Company and, if certain thresholds are met, will require the approval of the public or independent shareholders of the A Share Company under the rules of the Shanghai Stock Exchange. The further agreement would be entered into by the A Share Company or Unicom BVI, on the one hand, and us or our subsidiaries, on the other hand, and will provide for the transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries. The further agreement will constitute a related party transaction of our company and, if certain thresholds are met, will require the approval of our public or independent shareholders under the HKSE Listing Rules. We expect, to the extent the nature of a particular related party transaction allows, the two-step voting arrangements to apply as described above. However, when we or our subsidiaries are the providers, rather than recipients, of certain services, the two-step voting arrangements will need to be adjusted so that the process as described above is effectively reversed, such that the initial agreement is entered into by us or our subsidiaries rather than Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) with the A Share Company or Unicom BVI. Accordingly, Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries), rather than us or our subsidiaries, will be a party to the further agreement. The arrangements (including the conditions) will apply correspondingly. This two-step structure will be applied in all related party transactions between us or our subsidiaries and Unicom Group or its subsidiaries and will effectively require the separate approvals of the public or independent shareholders of each of Unicom and the A Share Company for such related party transactions.

Capital Expenditures and Divestitures

See Liquidity and Capital Resources Capital Expenditures under Item 5 for information concerning our principal capital expenditures for the previous two years and those planned for 2012. We currently do not have any significant divestiture in progress.

B. Business Overview

General

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers through our two business segments mobile services and fixed-line services. Following our acquisition of fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we have extended the coverage of all of our services nationwide. We, China Mobile and China Telecom are the three major telecommunications operators in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry.

In 2011, 3G business became the largest driver of our revenue growth. The total number of our 3G subscribers increased significantly from 14.06 million as of December 31, 2010 to 40.02 million as of December 31, 2011, and service revenue from our 3G business increased significantly from RMB11.60 billion 2010 to RMB32.74 billion in 2011. As a percentage of our total service revenue from mobile business, service revenue from 3G business increased from 14.1% in 2010 to 31.7% in 2011. In addition, our fixed-line broadband business continued to grow rapidly. Service revenue from fixed-line broadband business increased by 18.1% compared with 2010, accounting for 43.2% of total service revenue from the fixed-line business (excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively).

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Mobile Business

Our mobile business consists of GSM and 3G mobile business. Our mobile business revenue, subscribers and usage maintained growth in 2011, primarily driven by the growth of our 3G mobile business. As of December 31, 2011, we had a total of 199.7 million mobile subscribers, representing a 19.3% increase from 167.43 million as of December 31, 2010. Revenue from our mobile business was RMB126.53 billion in 2011, of which, service revenue of our mobile business increased by 25.3% from RMB82.45 billion in 2010 to RMB103.31 billion in 2011, accounted for 50.3% and 55.6% of our total service revenue in 2010 and 2011, respectively (excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively).

The following table sets forth selected historical information for our mobile operations and our subscriber base for the periods indicated.

	As of or for the year ended December 31,		
	2009(1)	2010(1)	2011(1)
Number of subscribers (in thousands)	147,587	167,426	199,660
Estimated market share in our service areas(2)	19.8%	19.5%	20.2%
Average minutes of usage per subscriber per month (MOU)(3)	253.1	280.5	303.8
Average revenue per subscriber per month (ARPU) (in RMB)(4)	41.6	43.7	47.3

(1) Including our 3G business which we launched on a trial basis in May 2009 and began operating on a commercial basis in October 2009.

(2) Market share in a given area is determined by dividing the number of our mobile subscribers in the area by the total number of mobile subscribers in the area. *Source*: MIIT.

(3) MOU is calculated by dividing the total minutes of usage during the period by the average number of our mobile business subscribers during the period, and dividing the result by the number of months in the relevant period.

(4) ARPU is calculated by dividing the sum of revenue of mobile business during the relevant period by the average number of our mobile business subscribers during the period, and dividing the result by the number of months in the period.

Our total number of mobile subscribers increased by 19.3% from 167.43 million as of December 31, 2010 to 199.7 million as of December 31, 2011, which was mainly due to the increase in our 3G subscribers. The MOU of our mobile business increased from 280.5 minutes in 2010 to 303.8 minutes in 2011, which was mainly because the subscribers of our 3G business, which has significantly higher MOU than our GSM business, has increased as a percentage of the total number of our mobile subscribers. The overall ARPU of our mobile business increased by 8.2% from RMB43.7 in 2010 to RMB47.3 in 2011 despite the ARPU of each of our GSM and 3G businesses continued to decrease in 2011 compared to 2010. This was mainly due to the continuing change of revenue mix between our GSM business and 3G business. 3G business has a significantly higher ARPU than GSM business. As the service revenue from 3G business increased significantly as a percentage of total service revenue from the mobile business from 14.1% in 2010 to 31.7% in 2011, the overall ARPU of our mobile business increased.

3G Mobile Business

In January 2009, our parent company, Unicom Group, received a 3G license to operate a 3G business based on the WCDMA technology nationwide in China and, with the approval of the MIIT, authorized our major wholly-owned subsidiary, CUCL, to operate this business. We launched our 3G operations on a trial basis in 55 cities in China under the brand WO in May 2009 and began commercial 3G operations in 285 cities in China on October 1, 2009. Our 3G mobile business primarily consists of 3G voice business and 3G non-voice business. Our 3G voice business enables our subscribers to make and receive phone calls with a mobile handset at any point within the coverage area of our mobile telecommunications networks. Our 3G non-voice services primarily include wireless Internet, mobile TV, mobile reading, WO App Store , WO

Friend and other wireless information services.

Subscriber. Our total number of 3G subscribers increased significantly from 14.06 million as of December 31, 2010 to 40.02 million as of December 31, 2011 (which includes 3.80 million wireless data card subscribers). The increase was primarily due to our active sales and marketing efforts, including expanding our sales channels, improving our sales and marketing strategies, diversifying our 3G tariff plans and product offerings, and adjusting and optimizing our subsidy policies for 3G handsets.

MOU and ARPU. With respect to our 3G mobile business, MOU decreased by 2.7% from 653.2 minutes in 2010 to 635.3 minutes in 2011 and ARPU decreased by 11.3% from RMB124.0 in 2010 to RMB110.0 in 2011. The decrease in our MOU and ARPU is mainly attributed to (i) our business strategy to lower the thresholds of the 3G tariff plans and increase the number of our subscribers, which resulted in an increased proportion of new subscribers who are users with lower usage of telecommunications services, and (ii) the intensified competition among the telecommunications operators in China.

3G Voice Business. The total 3G voice usage increased from 55.47 billion minutes in 2010 to 169.5 billion minutes in 2011, primarily as a result of the increase in our 3G subscribers.

3G Non-Voice Business. The average data usage per subscriber per month with respect to our 3G mobile business increased from 178M in 2010 to 267.2M in 2011, which was largely due to the popularity of smartphones, our innovation efforts in developing new applications, our promotion of subscribers data usage and our promotional activities for data and information services. As of December 31, 2011, we had 3.50 million registered subscribers of WO App Store and 1.20 million registered subscribers of WO Friend (an instant communication tool).

GSM Mobile Business

Our GSM mobile business primarily consists of GSM voice business and non-voice business. Our GSM voice business enables our subscribers to make and receive phone calls with a mobile handset at any point within the coverage area of our mobile telecommunications networks and includes local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. Our GSM non-voice services include mobile Internet, SMS, Cool Ringtone (a personalized ring-back tone service) and other wireless information services.

Subscriber. Our total number of GSM mobile subscribers increased by 4.1% from 153.37 million as of December 31, 2010 to 159.64 million as of December 31, 2011. We believe that this growth was attributable to a number of factors, including, among others, (i) the continued growth of the Chinese mobile telecommunications market, driven by domestic economic growth and reduction in the cost of mobile handsets and services, and (ii) our sales and marketing efforts in retaining existing subscribers and expanding our subscriber base, including through service bundling.

MOU and ARPU. With respect to our GSM mobile business, MOU decreased by 2.3% from 262.9 minutes in 2010 to 256.9 minutes in 2011, and ARPU decreased by 5.3% from RMB39.5 in 2010 to RMB37.4 in 2011. The decrease in our MOU and ARPU was primarily attributable to the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas, and the decrease in our ARPU was also as a result of our decreased effective tariffs, which were caused mainly by the intensified competition among the telecommunications operators in China and downward adjustments on tariffs by the PRC Government.

GSM Voice Business. The total voice usage of our GSM mobile services increased by 2.9% from 471.00 billion minutes in 2010 to 484.76 billion minutes in 2011, which was primarily due to the increase in our GSM mobile subscribers and the migration of certain mid- and high-end GSM subscribers to 3G network.

GSM Non-Voice Business. Our GSM mobile Internet subscribers increased by 14.0% from 55.81 million as of December 31, 2010 to 63.60 million as of December 31, 2011, representing an increase in the penetration rate from 36.4% to 39.8%. The total number of our subscribers to Cool Ringtone service decreased by 12.5% from 67.26 million as of December 31, 2010 to 58.84 million as of December 31, 2011, representing a decrease in the penetration rate from 43.9% to 36.9%. A total of 74.84 billion SMSs were transmitted by our GSM mobile subscribers in 2011, representing a decrease of 4.4% compared to 2010.

Fixed-Line Business

We are a leading fixed-line broadband and communications operator in northern China. Following our merger with China Netcom in October 2008, which previously provided mainly fixed-line services in 10 provinces in northern China, and our acquisition of the fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we offer a wide range of fixed-line services nationwide in China, including (i) fixed-line broadband services and data communications services, (ii) fixed-line voice services, include local and long distance fixed-line voice services and value-added services and (iii) other services.

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In 2011, we achieved continued growth in fixed-line broadband and data communications business, which was primary due to the upgrade of our fixed-line broadband network that increases access speed and the development of content and application services. However, the trend of mobile services substitution of fixed-line voice services had a continuing negative impact on our fixed-line voice business. Excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively, our revenue from fixed-line business was RMB81.69 billion in 2011, of which service revenue from our fixed-line business increased by 2.4% from RMB79.75 billion in 2010 to RMB81.63 billion in 2011, accounted for 48.7% and 43.9% of our total service revenue in 2010 and 2011, respectively.

Fixed-Line Broadband Services and Data Communications Services

Fixed-Line Broadband Services

Fixed-line broadband services are one of our emphases as part of our strategy to focus on high growth services. The growth in fixed-line broadband business has been driven by the increasing affordability and rising use of personal computers and other Internet access devices, gradual recognition by businesses of the importance of information and the proliferation of content and applications, such as online games and video-on-demand. We are a leading provider of fixed-line broadband services in our fixed-line northern service region and we seek to maintain this leading position by capitalizing on our extensive fixed-line network, large customer base, experienced sales force, established brand and strategy of multi-service bundling.

In 2011, we further upgraded our broadband network and improved access speed. As of December 31, 2011, our fixed-line broadband subscribers increased by 17.8% to 55.65 million, of which subscribers with 2M-and-above bandwidth accounted for 91.8% of all fixed-line broadband subscribers, representing an increase of 5 percentage points from the end of 2010, and subscribers with 4M-and-above bandwidth accounted for 41.3% of all fixed-line broadband subscribers, representing an increase of 11.7 percentage points from the end of 2010. We also continued implementing our marketing strategy to offer integrated broadband services with increased-speed and enhanced customer service. The total number of our subscribers of broadband content and applications reached 20.25 million, accounting for 36.4% of all fixed-line broadband subscribers. Our broadband ARPU decreased by 1.2% from RMB57.1 in 2010 to RMB56.4 in 2011, primarily due to intensified competition from other PRC telecommunications operators.

The following table sets forth the information of our fixed-line broadband subscribers as of the dates indicated:

	As of December 31,		
	2009	**2010**	**2011**
Number of fixed-line broadband subscribers (in thousands)	38,550	47,224	55,651

Data Communications Services

We are a leading provider of data communications services in our fixed-line northern service region. We offer managed data products, such as those based on digital data networks, or DDN, frame relay, asynchronous transfer mode, or ATM, and Internet protocol-virtual private network, or IP-VPN. We also offer leased line products, including domestic and international leased circuits. Our customers for these services include government entities, large financial institutions and other domestic and multinational businesses, Internet service providers and other telecommunications operators. As of the end of 2011, we have established business cooperation relationships with more than 170 overseas operators and multinational corporate customers to provide various international data communications products and services, such as international voice and data services. In 2011, we continued to offer full-scale data communications services to international operators and domestic and international corporate customers. We have also improved our capabilities to offer cross-border data communications and integrated information services.

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Fixed-Line Voice Business

Our fixed-line voice services consist of local voice, domestic long distance, international long distance, value-added, interconnection and PHS services. As domestic mobile operators launched service packages at competitive prices, mobile roaming tariffs were lowered, and the migration of voice usage from fixed-line to mobile continued. In 2011, leveraging on our company s full-service advantage, we enhanced market development in areas of customer premises network, or CPN, and rural markets, as well as strengthened the marketing of integrated services. For example, we actively promoted bundled products and services marketed under the brand WO Family . As of December 31, 2011, the number of our WO Family subscribers increased by 7.98 million to 8.38 million, which resulted in an increase of 2.2% in the number of our residential, business and public telephone fixed-line voice subscribers from December 31, 2010.

As of December 31, 2011, the number of our fixed-line subscribers (including PHS subscribers) decreased by 3.9% to 92.85 million from 96.64 million as of December 31, 2010. The decrease was primarily due to a decrease in the number of our PHS subscribers. The following table sets forth the information of our fixed-line subscribers as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	(in thousands)		
Number of fixed-line subscribers(1)			
Residential	61,733	59,681	59,363
Business	14,238	15,494	17,723
PHS	18,742	13,423	7,787
Public telephones	8,109	8,037	7,968
Total	102,822	96,635	92,851

(1) Fixed-line subscribers consist of all local access lines in service as well as PHS subscribers. We calculate PHS subscribers based on the number of active telephone numbers for our PHS services. In cases where a PHS subscriber uses the same telephone number as an access line in service, the designation as a PHS subscriber or access line in service depends on which service is first activated. We increase our total number of fixed-line subscribers as soon as practicable after activation of the service. We remove a fixed-line subscriber from the total number of fixed-line subscribers as soon as practicable after the fixed-line subscriber deactivates the service voluntarily or three months after the date on which the fixed-line subscriber s bill becomes overdue.

The PRC Government issued a policy in January 2009 requiring the current wireless access systems operating on the spectrum used by PHS services to be cleared and removed from such spectrum within three years. As a result, the number of our PHS subscribers significantly decreased over the past few years.

Local Voice Services

As a result of mobile substitution, our fixed-line local voice traffic has continued to decrease in recent years. As fixed-line broadband business further develops, our Internet dial-up usage has also continued to decrease. The following table sets forth information regarding usage of our local voice services for the periods indicated:

	For the Year Ended December 31,		
	2009	2010	2011
Usage of local calls (pulse in millions)(1)			
Total usage	188,116	156,724	125,944

	For the Year Ended December 31,		
	2009	2010	2011
Internet dial-up usage	2,577	1,162	668
Total usage excluding Internet dial-up usage	185,539	155,562	125,275

(1) Pulses are the billing units for calculating local telephone usage fees.

Long Distance Voice Services

We offer traditional long distance services and VoIP long distance services. In recent years, due to the general decline of our fixed-line business and competition from software applications that allow users to make long distance calls over the Internet, our long distance business has been adversely affected.

The following table shows the total minutes of domestic long distance calls carried through our long distance networks for the periods indicated:

	For the Year Ended December 31,		
	2009	2010	2011
Total minutes of domestic long distance calls (minutes in millions)[(1)]			
Traditional	21,261	17,349	14,033
VoIP	11,698	8,879	7,036
Total	32,959	26,228	21,069

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our long distance networks.

The following table sets forth certain information related to the usage of our international long distance services for the periods indicated:

	For the Year Ended December 31,		
	2009	2010	2011
International long distance outbound call minutes (minutes in millions)[(1)(2)]			
Traditional	221	269	214
VoIP	403	290	270
Total	624	559	484

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our international long distance networks.

(2) Includes long distance outbound calls made to Hong Kong, Macau and Taiwan.

Fixed-Line Value-Added Services

In addition to fixed-line telephone voice services, we offer a wide range of value-added services on our fixed-line networks. Our value-added services generate additional usage on our networks and increase our average revenue per fixed-line subscriber. Our major fixed-line value-added services include Personalized Ring and caller identification services. Personalized Ring services enable our fixed-line subscribers to personalize the ring-back tone for incoming calls. As the number of our fixed-line subscribers continued to decrease in the past few years, the number of customers using our fixed-line value added services also decreased correspondingly. As of December 31, 2011, the number of our Personalized Ring subscribers reached 21.09 million, representing a decrease of approximately 11.4% from the end of 2010. The penetration rate of caller identification services amounted to 67.52%, decreasing by 2.56 percentage point over that of 2010.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to the arrangements that permit the connection of our telecommunications networks with other networks. Our mobile and fixed-line networks interconnect with Unicom Group s networks. Under current arrangements, settlement between Unicom Group and us is based on an internal settlement standard that takes into account either the internal costs of the relevant networks or the government standard applicable between third-party operators, whichever is the more favorable to us.

We earn interconnection fees for terminating or transiting calls that originate from other domestic telecommunications operators networks and pay interconnection fees to other operators for calls originating from our networks that are terminated on their networks. We earn and pay such fees in respect of mobile calls, local and domestic and international long distance calls and Internet services. We are required to pay the interconnection fees regardless of our ability or inability to collect the tariff from our subscribers. Interconnection charges are accrued on a monthly basis based on the actual call volume and applicable tariff rates.

All interconnection and settlement arrangements among domestic telecommunications operators in China are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. Some of the agreements pursuant to which we interconnect with other domestic operators were entered into by Unicom Group. We have entered into an agreement with Unicom Group pursuant to which we have agreed with Unicom Group that the costs and benefits arising under these agreements, as they relate to our operations, will be incurred to our account.

For additional information about our domestic and international interconnection arrangements, see B. Business Overview Regulatory and Related Matters under Item 4 and B. Related Party Transactions under Item 7.

Roaming

We provide roaming services, which allow our subscribers to access our mobile services while they are physically outside of their registered service area or in the coverage areas of other mobile networks in other countries and regions with which we have roaming arrangements. As of March 31, 2012, we had roaming arrangements for (i) GSM international voice and SMS services with 552 operators in 246 countries and regions, (ii) GPRS international inbound data services with 456 operators in 196 countries and regions and for international GPRS outbound data services with 408 operators in 180 countries and regions, and (iii) 3G services with 293 WCDMA operators in 112 countries and regions.

A mobile subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming charges with international operators in accordance with roaming agreements between Unicom Group and each of the international operators. See B. Related Party Transactions Our Roaming Arrangements under Item 7 for further information regarding prior roaming arrangements between Unicom Group and us.

Networks

We operate an advanced network system to support our integrated operations. The backbone of the system is a nationwide fiber optic transmission network, which serves as the common platform for our mobile, fixed-line telephone, broadband and data services. We generally utilize a centralized network planning and equipment selection process, which ensures uniform nationwide design and network compatibility. After our merger with China Netcom in October 2008, we have actively integrated our network resources to improve our network quality and capacity.

Mobile Networks

Our mobile network generally consists of:

- cell sites, which are physical locations, each equipped with a base station that houses transmitters, receivers and other equipment used to communicate through radio channels with subscribers mobile handsets within the range of a cell;

base station controllers, which connect to, and control, the base stations;

mobile switching centers, which control the base station controllers and the routing of telephone calls; and

a transmission network, which links the mobile switching centers, base station controllers, base stations and the public switched telephone network.

We have deployed GSM and WCDMA mobile networks. Our GSM mobile network mainly operates at 900 MHz. We have also deployed GSM technology that operates at 1800 MHz in major metropolitan areas to supplement the capacity of our existing mobile network. We use 2x6 MHz of spectrum in the 900 frequency band and 2x20 MHz of spectrum in the 1800 frequency band for our GSM network in most of our service areas. We use 2x15 MHz of spectrum in the 2100 frequency band for our WCDMA mobile network.

As of December 31, 2011, we had approximately 374,790 GSM base stations, representing an increase by 13.9% from December 31, 2010. The call-completion rate of our GSM service was 97.12% at the end of 2011 and the call-drop rate decreased to 0.25% at the end of 2011 from 0.32% at the beginning of 2011. We also completed the GPRS network upgrade and significantly improved the configuration of static packet data channels.

We have devoted significant resources in developing our 3G networks and have established one of the biggest WCDMA networks in the world. As of December 31, 2011, we had approximately 238,818 3G base stations, representing an increase of 30.6% from December 31, 2010. As of December 31, 2011, our 3G network coverage reached cities at county level and above throughout China as well as villages and towns in eastern and central developed areas of China. In addition, in 2011, we completed the upgrade of 3G networks to HSPA+ (i.e., evolved high-speed packet access) in 56 major cities in China.

Fixed-Line Networks

We operate fixed-line networks which provide extensive coverage in China. These networks are technologically advanced and conducive to the introduction of the next generation fixed-line network and 3G technologies. These networks support a wide range of end-to-end fixed-line telecommunications services and enable customized products to be delivered to meet a variety of telecommunications needs in real-time.

Our fixed-line networks consist of fixed-line telephone networks, broadband Internet and data networks, transmission networks, value-added service platforms, IT support systems and related infrastructures. Our transmission networks consist primarily of fiber-optic based networks, which cover our major service regions, supplemented by satellite transmission and digital microwave links.

We have integrated our resources to optimize and improve the transport capabilities of our IP networks and improved our long-distance soft-switch network capability. In addition, we have fully implemented the upgrade of broadband connection speed and our broadband network capacity was substantially enhanced. By the end of 2011, the number of fixed-line broadband access ports was 85.92 million, up by 30.5% from the end of 2010, of which the number of access ports with FTTH/B accounted for 45% of total broadband access ports. Our international Internet outbound bandwidth reached 467G, our submarine cable capacity reached 2,036G, and our international cross-continental cable capacity reached 2,468G.

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide sales and distribution network. We implement our marketing and sales strategies under a single unified brand WO and distribute our services through a variety of distribution channels, consisting of (i) self-owned channels, including proprietary sales outlets and direct sales forces targeting retail and corporate customers, (ii) social channels, including cooperative sales outlets, exclusive sales outlets and agency sales outlets, and (iii) electronic distribution channels, including self-owned and third-party channels online e-stores. In recent years, we have continued developing our self-owned sales channels and strategically expanding our social channels. In particular, for our 3G services, in addition to the full use of our self-owned channels, we have also focused on using high-quality social channels, such as large brand name electronics retail chains and electronics outlets in China, to achieve better sales results. Further, we continued promoting our nationwide e-sales system, which has effectively supplemented our traditional sales channels and improve our service quality.

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Customer Service

We provide customer services through our nationwide sales outlets, hotline number 10010 , VIP hotline number 10018 , online sales outlets, SMSs, Wireless Application Protocol, or WAP, official micro blog and other channels. Our customer services typically include inquiries, service initiation and termination, sales and response to customer complaints and suggestions. Since 2009, we have provided 3G-dedicated customer service and have established over 300 WO brand stores to enhance our customers experience. In recent years, we continued to improve our customer service quality and created 3G Customer Service Centers + VIP Customer Managers , a 3G-dedicated customer service model for our 3G subscribers.

Information Systems

We have established comprehensive information systems in each province, autonomous region and municipality to support our business and management. For business support, we have established core systems composed of a customer relationship management system, a comprehensive billing and accounting system, a comprehensive settlement system and an operation analysis system to support services and marketing of our mobile and fixed-line businesses. For our management support, we have focused on developing a human resources management system and a financial management system to enhance the efficiency of our control and management over our resources. In 2011, we further promoted the establishment of integrated systems, such as an integrated business support system for corporate group customers, integrated channels management system and integrated account settlement system. We also started to build an electronic sales management system featuring full services and an integrated data analysis system. Meanwhile, we focused on establishing a comprehensive enterprise resource planning system to optimize our resource allocations and enhance our operational efficiency.

Research and Development

We focus on technology innovation in coordination with our various business departments in order to provide technical support to the development of our various businesses. Our research and development activities are focused primarily on 3G technologies and their further development, next generation Internet technologies and businesses, operational planning and development of value-added services. In addition, part of our research and development requirements is fulfilled by our parent company, Unicom Group, in return for a service fee. See B. Related Party Transactions under Item 7 below. With respect to research and development for our broadband business, we mainly rely on Unicom Group s National Laboratory of Next Generation Network in Broadband Application, which is China s first national level engineering laboratory in the information and telecommunications industry, focusing on the research of next generation Internet IPv6, Triple-Play and 3G operating and supporting systems. We also participate in the national research project on LTE and closely follow the development of LTE technologies and standards. We have applied for a number of patents and software copyrights in China.

Competition

As a result of the telecommunications industry restructuring in 2008, the Chinese telecommunications market now has three key providers of basic telecommunications service China Telecom, China Mobile and us in addition to thousands of value-added service providers. We compete with China Mobile and China Telecom in virtually all aspects of our business, including mobile services, fixed-line voice services, broadband services and data communications services. We believe that the telecommunications industry restructuring in 2008 has provided an opportunity for us to integrate our various resources with those of China Netcom to create business synergies for the post-merger Unicom. However, we also believe that the restructuring may cause the competition in the telecommunications industry in China to be more intensified and complex in the future. In particular, as 3G business in China has experienced rapid growth since 2009 and has become a main growth driver for us and our major competitors, the competition in 3G business has intensified in recent years. We are also expected to face intensive competition in the next generation telecommunications business when the relevant technologies become mature and commercialized. See D. Risk Factors Risks Relating to Our Business We face intense competition in all our businesses from other telecommunications service providers, including China Mobile and China Telecom, which may materially adversely affect our financial condition, results of operations and growth prospects. under Item 3.

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Strategic Alliances with Telefónica

On January 30, 2009, we entered into a strategic alliance framework agreement with Telefónica. Pursuant to the framework agreement, Telefónica and we agreed to share business experience and strengthen cooperation in the areas of mobile communications, broadband applications, international business, marketing and sales and telecommunications services to corporate clients. On September 6, 2009, we entered into a strategic alliance agreement with Telefónica, pursuant to which Telefónica and we agreed to establish a strategic alliance to strengthen the business of each party by cooperation based on our respective networks, business models and experience. On October 21, 2009, we and Telefónica completed a mutual investment in the amount of the equivalent of US$1 billion in each other, which was implemented by way of the subscription by Telefónica of 693,912,264 new shares in our Company and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica to us.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares in the capital of Telefónica for aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica, through its wholly-owned subsidiary, Telefónica International, acquired 282,063,000 ordinary shares in the capital of our company for aggregate consideration of approximately US$500,000,000 in several transactions executed in the period between January 25, 2011 and September 7, 2011. In addition, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

Trademarks

We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the Unicom trademark in English and the trademark bearing the Unicom logo. Unicom Group is also the registered proprietor of the trademark of the word Unicom in Chinese ( ). Unicom Group has granted us the right to use these trademarks on a royalty-free basis with periodic renewals, and licensed us any trademark that it registers in China in the future which incorporates the word Unicom.

Regulatory and Related Matters

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the MIIT, established in 2008 as a new ministry under the PRC State Council and the successor of the former Ministry of Information Industry. The NDRC, the Ministry of Commerce and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

The MIIT, under the supervision of the State Council, is responsible for, among other things:

- formulating and enforcing industry policies and regulations, as well as technical standards;
- granting telecommunications service licenses;
- supervising the operations and quality of services of telecommunications service providers;
- allocating and administering telecommunications resources such as spectrum and number resources;

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- together with other relevant regulatory authorities, formulating tariff standards for telecommunications services;

- formulating interconnection and settlement policies between telecommunications networks; and

- maintaining fair and orderly market competition among service providers.

The MIIT has established a Telecommunications Administration in each province, autonomous region and municipality, which is mainly responsible for overseeing the implementation of the MIIT s policies and regulations and exercising regulatory authority delegated by the MIIT within that province, autonomous region or municipality.

The NDRC, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. See Tariff Setting and Price Controls below.

The MIIT is in the process of drafting a telecommunications law that, once adopted by the National People s Congress of the PRC, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective. See D. Risk Factors Risks Relating to the Telecommunications Industry in China Regulatory or policy changes relating to the PRC telecommunications industry or any future industry restructuring may materially adversely affect our financial condition, results of operations and growth prospects. under Item 3.

Telecommunications Regulations

On September 25, 2000, the PRC State Council promulgated the Telecommunications Regulations of the People s Republic of China, which came into effect on the same date. All telecommunications activities and related activities within China are subject to the Telecommunications Regulations.

According to the PRC Government, its administration and regulation of the Chinese telecommunications industry is based on the principles of the separation of governmental regulation from enterprise management, the elimination of monopolistic behavior, the encouragement of competition and the promotion of the development of the Chinese telecommunications industry, while also taking into account the principles of openness, equality and fairness. The Telecommunications Regulations regulate all major aspects of the telecommunications industry, including licensing, interconnection, tariffs, resources, services, security, facility construction and access to networks.

Licensing

The PRC Government licenses telecommunications businesses in accordance with their classification. Telecommunications businesses are currently classified into two broad categories of basic services and value-added services. An appendix to the Telecommunications Regulations divides each of the two categories into further sub-categories. On March 21, 2003, the former Ministry of Information Industry amended the categorization in this appendix and the amendments took effect on April 1, 2003. According to the amended appendix:

- basic telecommunications services are classified into Category I basic telecommunications services and Category II basic telecommunications services. Category I basic telecommunications services include fixed-line telecommunications services (including fixed-line local, domestic long distance, international long distance and IP telephone services and services related to maintaining international telecommunications facilities), mobile telecommunications services (including 900/1800MHz GSM 2G, 800MHz CDMA 2G and 3G digital cellular mobile telecommunications services), Category I satellite telecommunications services (including satellite mobile telecommunications and international satellite private-line services) and Category I data communications services (including Internet data transmission, international data telecommunications, public telegraph and telex services). Category II basic telecommunications services include trunking telecommunications services (including analogue trunking telecommunications and digital trunking telecommunications services), wireless paging services, Category II satellite telecommunications services (including lease and sales of satellite transponders and very-small-aperture-terminal, or VSAT, telecommunications services), Category II data telecommunications services (including fixed-line domestic and wireless data transmission services), network access services (including wireless network access services and network services from customer premises), services related to maintaining domestic telecommunications facilities and network hosting services.

value-added telecommunications services are classified into Category I value-added telecommunications services and Category II value-added telecommunications services. Category I value-added telecommunications services include on-line data processing and interchange, domestic multi-party telecommunications, IP-VPN and Internet data center, or IDC, services. Category II value-added telecommunications services include store-and-forward, call center, Internet access and information services.

On March 1, 2009, the MIIT promulgated the Measures on the Administration of Telecommunications Business Licenses, which took effect on April 10, 2009 and superseded the previous measures promulgated by the former Ministry of Information Industry on December 26, 2001.

The measures govern the application for, approval of and regulation of telecommunications business licenses in China. The operation of any basic telecommunications business is subject to the MIIT s approval and grant of License for Operation of Basic Telecommunications Businesses. The operation of any value-added business in two or more provinces, autonomous regions or municipalities is subject to the MIIT s approval and grant of License for Inter-Provincial Operation of Value-Added Telecommunications Businesses. The operation of value-added businesses within a single province, autonomous region or municipality is subject to the approval of the telecommunications authority of the relevant province, autonomous region or municipality and the grant of the License for Operation of Value-Added Telecommunications Businesses. The measures, among other things, lowered the minimum amount of registered capital required for an applicant to enter the basic telecommunications business in China.

After the PRC s accession to the WTO, on December 11, 2001, the PRC State Council promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investments, which took effect on January 1, 2002, and were amended on September 10, 2008, to implement China s commitments to the WTO. Those commitments include the gradual reduction of restrictions on foreign ownership in telecommunications enterprises in China and the step-by-step opening up of the Chinese telecommunications market to foreign enterprises. In recent years, China gradually lifted restrictions for foreign investors in telecommunications enterprises in China and fulfilled its commitment to open up the Chinese telecommunications market. However, the following restrictions on investments in mobile, value-added telecommunications and fixed-line businesses remain:

- for fixed-line services, there is no longer any geographic restriction and foreign ownership may be no more than 49%;

- for mobile voice and data services, there is no longer any geographic restriction and foreign ownership may be no more than 49%; and

- for value-added telecommunications services, there is no longer any geographic restriction and foreign ownership may be no more than 50%.

Spectrum and Network Number Resources

The MIIT is responsible for the management of the wireless radio frequency spectrum and the allocation of frequencies within the spectrum. The frequency assigned to a telecommunications operator may not be leased or transferred without the MIIT s approval. Standard fees for usage of the frequencies assigned to cellular telecommunications are charged to telecommunications operators: (i) for the nationwide GSM network frequency, an annual rate of RMB17 million per MHz is charged for the 900MHz band and an annual rate of RMB15 million per MHz is charged for the 1800 MHz band; (ii) for the nationwide WCDMA network frequency, a standard fee at an annual rate of RMB3.75 million per MHz in 2011, RMB7.5 million per MHz in 2012, RMB11.25 million MHz in 2013 and RMB15 million per MHz in 2014 and onwards will be charged for the 2100 MHz band; (iii) for the Femtocell experimental frequency, an annual rate of 20% of RMB15 million per MHz will be charged for the 2100 MHz band from 2011; and (iv) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz is charged for each province for the 900 MHz band, an annual rate of RMB1.5 million per MHz is charged for each province for the 1800 MHz band and an annual rate of RMB1.5 million will be charged for each province for the 2100 MHz band.

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The MIIT is also responsible for the administration of China s telecommunications network number resources. The telecommunications network number resources are owned by the State, which shall charge fees for the use of such resources. Application for the use of number resources by any telecommunications operator is subject to the approval of the MIIT or the relevant provincial telecommunications authority and the payment of certain usage fees. The measures also provide for the procedures for the application, usage and record keeping for the telecommunications operators use of number resources.

Tariff Setting and Price Controls

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC, and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities. Under the Telecommunications Regulations, telecommunications tariffs are categorized into State-fixed tariffs, State-guidance tariffs and market-based tariffs.

The monthly fee and local usage fee for mobile services are regulated as State-fixed tariffs. Leased line and data services (other than ATM service) are charged at State-guidance tariffs, which are determined jointly by the MIIT and the NDRC. Pursuant to the Notice on Adjustment to Tariff Management for Local Fixed-Line Telephone Services issued by the MIIT in 2009, the monthly fee and usage fee for local fixed-line telephone services (including PHS) as well as the long-term leasing fees for circuits leasing are subject to certain tariff ceiling. Domestic long distance services, international long distance services and Hong Kong, Macau and Taiwan long distance services are also currently subject to tariff ceiling.

The Notice on Implementation of Market-Based Tariffs for Certain Telecommunications Services, promulgated jointly by the former Ministry of Information Industry and the NDRC in 2002, specifies the telecommunications businesses to which market-based tariffs are applicable, including VoIP, Internet access services, and certain value-added services provided over fixed-line telephone networks, such as telephone information, caller identification and voice mail. Market-based tariffs shall be applicable to those telecommunications services for which effective competition exists in the market. The tariffs of such telecommunications services are determined at the sole discretion of the operators, and will be implemented after filing with the MIIT or provincial Telecommunications Administration Bureaus, as applicable. There is uncertainty regarding how the MIIT determines the existence of effective competition, as the MIIT has not publicly disclosed the criteria it uses for determining whether a certain type of service should be subject to market-based tariffs. Under the Telecommunications Regulations, cost is the primary basis for tariff setting, but the tariff levels also take into account social and economic development, the development of the telecommunications industry and the purchasing power of the customers. The MIIT has not provided a timetable for tariff deregulation or indicated that operators will eventually be permitted to freely set all tariffs. We expect that increased flexibility in setting certain tariffs will allow us to better respond to changes in market demand and competitive conditions.

The PRC Government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing important State-tariff rates, which are attended by telecommunications operators, consumers and others. Operators are required to provide complete and adequate cost data and other materials for those hearings.

The following tables set forth the tariff rates of certain services provided by us, where government fixed tariffs or government guidance tariffs are applicable:

Mobile Business

Generally the categories of tariffs we charge our mobile subscribers include, among others, basic monthly fees and local usage charges, roaming charges, long-distance call charges and charges for value-added services. Mobile tariffs are set forth by the MIIT and tariff adjustments are subject to regulation by various government authorities, including the MIIT, the NDRC and the relevant provincial price regulatory authorities. The following table summarizes the current tariffs for post-paid and pre-paid mobile services:

	Post-paid Services (RMB)	**Pre-paid Services (RMB)**
Basic monthly fee	45-50	0
Local usage charge (per minute)	0.36-0.40	0.54-0.6
Domestic roaming charge (per minute)	0.6 for caller 0.4 for receiver	0.6 for caller 0.4 for receiver

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Intensified competition in our mobile service areas has resulted in tariff discounts and service promotions offered by us and our main competitors from time to time, which may reduce the effective tariffs. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, reduced roaming charges, off-peak discounts or discounts for high-usage subscribers and package service plans with fixed monthly fees.

We have introduced a number of package service plans. Under these plans, subscribers typically pay a fixed monthly fee for a specified number of call minutes. The plans vary at the levels of fixed monthly fee, number of specified call minutes and tariff rates for call minutes in excess of the specified call minutes. The terms of these plans also vary depending on the local markets.

In 1997, the PRC Government granted us preferential treatment by allowing us to reduce our tariffs by up to 10% below the State-guidance tariff rates. In the past, this preferential treatment has helped us capture a significant number of mobile subscribers by allowing us to market our mobile services at discounted rates. As we and our main competitors introduced various package service plans and other promotional programs, the tariff structure has become more complex, which, to some extent, has made our price advantages less obvious to subscribers compared to previous tariffs that were largely based on simple per-minute charges.

Fixed-Line Voice Business

For our local voice services, we charge an installation and testing fee that varies depending on whether the subscriber is a residential or a business customer, a fixed monthly fee, local call usage fees based on call duration and fees for certain value-added services. For our domestic long distance services, our revenue from domestic long distance services consist of charges based on the duration, time of day and day of the week a call is placed. In addition, we currently charge RMB0.30 per minute in addition to a long distance fee for our VoIP domestic long distance services. For our international long distance services, our charges are subject to the maximum tariffs regulated by the MIIT.

The following table sets forth our current tariffs for (i) local voice services provided on our traditional and PHS network, (ii) domestic long distance telephone services using our traditional network and (iii) our international long distance telephone services using our traditional network:

Local Voice Services	**Tariff (RMB)**
Monthly fee:	
Residential subscribers in:	
Provincial capitals	20.00 to 25.00
Other cities and counties	12.00 to 18.00
Rural areas	10.00 to 15.00
Business subscribers	25.00 to 35.00
Usage fee:	
Intra-district	0.18 to 0.22 for the first two pulses (first three minutes or less) and 0.09 to 0.11 for each additional pulse (one minute intervals)
Inter-district	up to 0.30 per pulse (one minute intervals)
Communication fee:	
Internet dial-up	0.02 per pulse (one minute intervals)
Domestic long distance services on our traditional network[1]	0.07 per six seconds
International long distance services on our traditional network[1]**:**	
To Hong Kong, Macau and Taiwan	0.20 per six seconds
To all international destinations	0.80 per six seconds

(1) Subject to filing with the provincial telecommunications administrations, our provincial level headquarters may apply a 10% to 50% discount rate to calls made during off-peak hours.

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Managed Data Services

The PRC Government publishes guidance tariffs for certain managed data services, including DDN and frame relay services, provided by operators in China. Tariffs for our ATM services are determined at our discretion, subject to approval by the MIIT. An installation and testing fee is generally charged for installation and testing for our data services, as well as a fixed monthly fee for each of the services.

DDN services. The following table sets forth the monthly fees for DDN services at the bandwidths of 64kbps, 128kbps, 512kbps and 1Mbps:

	Monthly Fee			
	64kbps	**128kbps**	**512kbps**	**1Mbps**
		(RMB)		
Intra-district	1,500	2,000	3,800	5,000
Inter-district	2,000	2,500	5,200	7,500
Domestic long distance	3,500	5,000	7,000	9,000

Frame relay services. The following tables set forth the monthly fees for frame relay services, which include monthly fees for port access and permanent virtual circuits, or PVCs[(1)]:

	Monthly Fee			
	64kbps	**256kbps**	**512kbps**	**1Mbps**
		(RMB)		
Port access				
Monthly fees	260	400	500	750
PVC				
Intra-district	550	800	1,000	1,250
Inter-district	800	1,150	1,450	2,000
Domestic long distance	1,700	2,200	2,500	3,000

(1) One-way tariff for PVCs frame relay services.

Leased Line Services

We charge monthly fees for subscribers to our leased line services based on guidance tariffs set by the PRC Government, which vary based on bandwidth and whether the leased line is local or long distance. Leased line tariffs have generally decreased in recent years.

The following table sets forth the tariffs for 2Mbps, 8Mbps, 34Mbps and 155Mbps digital circuits:

	Monthly Fee			
	2Mbps	**8Mbps**	**34Mbps**	**155Mbps**
		(RMB)		
Intra-district	2,000	6,000	16,000	44,000
Inter-district	4,000	11,000	31,000	88,000
Domestic long distance[(1)]	6,000	17,000	47,000	132,000

(1) Does not include the tariffs for local digital circuits and access lines.

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Interconnection Arrangements

In October 2003, the former Ministry of Information Industry issued Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees, which superseded the Measures on the Settlement of Call Charges between Telecommunications Networks issued by the former Ministry of Information Industry in 2001. These regulations contain specific provisions regarding, among other things, revenue sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. Since November 2005, the former Ministry of Information Industry (or the MIIT after March 2008) has issued a number of administrative measures to adjust the settlement arrangement standards with respect to interconnection fees for certain network interconnections between telecommunications operators. In accordance with various administrative measures, Unicom Group or we, as the case may be, have entered into agreements on interconnection with other telecommunications operators, including China Telecom and China Mobile.

The following table sets forth selected interconnection revenue sharing and settlement arrangements for local calls:

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Mobile operator	Local fixed-line operator	(1) Mobile operator collects the usage fees from its subscribers; (2) Mobile operator pays RMB0.06 per minute to local fixed-line operator. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to fixed-line operator. From January 1, 2011, for calls originated from 157 or 188 prefix phone numbers (TD users), mobile operator (China Mobile) continues to pay RMB0.012 per minute to fixed-line operator.
Local fixed-line operator	Mobile operator	(1) Local fixed-line operator collects the usage charge from its subscribers; (2) No revenue sharing or settlement prior to June 1, 2010. Local fixed-line operator pays RMB0.001 per minute to mobile operator after June 1, 2010.
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers; (2) Mobile operator A pays RMB0.06 per minute to mobile operator B. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2011, mobile operator A (China Mobile) pays RMB0.012 per minute

to mobile operator B.

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Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line operator A	Local fixed-line operator B	(1) Operator A collects the usage fees from its subscribers; (2) In the case of intra-district calls, operator A pays operator B 50% of the intra-district usage fees; (3) (i) In the case of local inter-district calls from operator A using operator B s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays RMB0.06 per minute to operator B; (ii) In the case of local inter-district calls from operator A not using operator B s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays operator B 50% of the intra-district usage fees.

The following table sets forth selected current major main interconnection revenue sharing and settlement arrangements for domestic long distance calls:

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line or mobile operator A (through the long distance network of operator A)	Local fixed-line or mobile operator B	Operator A pays RMB0.06 per minute to operator B
Fixed-line or mobile operator A	Domestic long distance calls made without using the carrier identity code of operator B (through the long distance network of operator B)	(1) Operator A collects the tariff from the subscribers; (2) If Operator A is a fixed-line operator, operator A retains RMB0.06 per minute; if operator A is a mobile operator, operator A retains local usage fee and RMB0.06 per minute; and (3) Operator A pays operator B the rest of the domestic long distance tariff. Note: Domestic long distance calls shall be charged at the domestic long distance call tariff of operator B.
Local fixed-line or mobile operator A	Domestic long distance calls made by using the carrier identity code of operator B (through the long distance network of operator B)	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

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The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for public switched telephone network international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line or mobile operator A	International long distance calls (including to Hong Kong, Macau and Taiwan) made without using the carrier identity code of operator B and directed by operator A from the originating network to operator B.	(1) Operator A collects the tariff from the subscribers; (2) If operator A is a fixed-line operator, operator A retains no more than RMB0.54 per minute with the remaining paid to operator B; and (3) If operator A is local usage fees and a mobile operator, operator A retains local usage fees and no more than RMB0.54 per minute with the remaining paid to operator B. Note: International long distance calls shall be charged at the international long distance call tariff of operator B.
Local fixed-line or mobile operator A	International long distance calls made by using the carrier identity code of operator B and through the domestic and international long distance networks of operator B.	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for VoIP long distance calls:

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B through the VoIP network of operator C	(1) Operator A collects local usage fees; (2) Operator C collects the VoIP long distance usage fees from its subscribers; (3) Operator C pays RMB0.06 per minute to operator B on the terminating end; (4) No settlement between operator C and operator A on the originating end.

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for SMS:

Network from Which SMS Originated	Network at Which SMS Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B	

(1) Operator A collects the tariff from its subscribers;

(2) Operator A pays RMB0.03 (RMB0.05 prior to January 1, 2010) per SMS to Operator B

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for MMS:

Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B	(1) Operator A collects the tariff from its subscribers; (2) Operator A pays RMB0.10 (RMB0.15 prior to January 1, 2010) per MMS to Operator B

Technical Standards

The MIIT is responsible for promulgating the technical standards for China s telecommunications industry and establishing the technical requirements and testing parameters for telecommunications equipment (including network and end user equipment). The MIIT is also responsible for designating qualified institutes to test telecommunications equipment, which would grant network access licenses (or product standard certificates) for the equipment that has successfully passed the relevant tests. Only telecommunications equipment for which a network access license (or a product standard certificate) has been granted may be sold and used in China.

Most of the standards used in the Chinese telecommunications industry are generally based on the standards issued by the International Telecommunication Union, or ITU, 3rd Generation Partnership Project, Open Mobile Alliance, World Wide Web Consortium, and other international organizations for telecommunications standards, with more specific requirements made in light of China s particular telecommunications industry. On the basis of the technical standards used in China s telecommunications industry, we may formulate our own technical standards based on our own needs and issue additional requirements for telecommunications equipment in order to meet our operational needs. All telecommunications equipment purchased by China s telecommunications operators must have been granted a network access license issued by the MIIT and must meet the standards set forth by the relevant operators.

Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial telecommunications administrations are responsible for supervising and monitoring the quality of services provided by telecommunications operators in China. Under the Telecommunications Regulations, customers of telecommunications operators have the right to submit their complaints to the MIIT and the relevant provincial telecommunications administrations or other relevant government authorities. In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government, and the MIIT has the authority to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with the finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly.

The MIIT has required major Chinese telecommunications service providers, including Unicom Group and former Netcom Group, to participate in a project to provide telecommunications services in a number of remote villages in certain designated provinces in China as transitional measures prior to the formalization of a universal service obligation framework. In participating in this project, Unicom Group has undertaken the universal service obligation to extend telecommunications service coverage to all administrative-level villages primarily through its transmission networks. Currently, with our assistance, Unicom Group is further extending telecommunications service coverage to natural villages in remote areas in China as designated by the MIIT. We have been assisting Unicom Group in providing mobile telecommunications services to these remote villages and are responsible for the operation and maintenance of the relevant network facilities in our service areas. See D. Risk Factors Risks Relating to the Telecommunications Industry in China The PRC Government may require us, along with other telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services. under Item 3.

Convergence Policy of Telecom, Broadcasting and Internet Networks

In January 2010, the PRC Government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications and Internet access networks to realize interconnection and resource sharing among the three networks and further develop the provision of voice, data, television and other services. Specifically, the three-network convergence policy will be initially carried out on a trial basis in selective geographic locations during the period from 2010 to 2012 and further implemented across-the-board in the following three years. In June 2010, the PRC Government announced the first batch of cities in China where the three-network convergence policy is carried out on a trial basis. In December 2011, a total number of 44 cities were selected as the second batch of cities where the three-network convergence policy is carried out on a trial basis. The PRC Government may amend relevant policies or promulgate new regulations corresponding to the implementation of the three-network convergence policy in the future.

Others

As a company with substantially all of our operations in China, we, along with our controlling shareholder, Unicom Group, are subject to various regulations of the PRC Government in addition to those regulating the telecommunications industry. PRC regulatory authorities, such as the State Bureau of Taxation, National Audit Office, SAIC and local price bureaus, exercise extensive control over various aspects of our businesses and conduct various regular inspections, examinations and/or audits on us and Unicom Group. As required by the relevant PRC laws and regulations, Unicom Group, as one of the key State-owned enterprises under the direct supervision of the SASAC, is also subject to routine audits by the National Audit Office, or the NAO, including the senior management departure audit which involves a mandatory review by the NAO of the economic responsibilities of a departing senior management member of Unicom Group.

In addition, SASAC has an indirect influence over us as our controlling shareholder, Unicom Group, is under the direct supervision of SASAC. In particular, SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management. SASAC may also request Unicom Group to remove our directors and senior management in accordance with relevant procedures provided by applicable law and our articles of association.

C. Organizational Structure

We are incorporated in Hong Kong and as of April 20, 2012, we were 41.27% owned by Unicom BVI, which was 17.90% owned by Unicom Group and 82.10% owned by the A Share Company, which in turn was 61.50% owned by Unicom Group, 29.74% owned by Netcom BVI, which in turn was 100% owned by Unicom Group, 19.42% owned by public shareholders and 9.57% owned by Telefónica. See A. History and Development of the Company above. Set forth below are details of our wholly owned significant subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest
China United Network Communications Corporation Limited	China	100%
China Unicom (Hong Kong) Operations Limited	Hong Kong	100%
China Unicom (Americas) Operations Limited	United States	100%
China Unicom (Singapore) Operations Pte. Ltd.	Singapore	100%
China Unicom (Europe) Operations Limited	United Kingdom	100%
China Unicom (Japan) Operations Corporation	Japan	100%
Billion Express Investments Limited	British Virgin Islands	100%

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D. Properties

Our principal executive offices are located in Hong Kong. We also maintain executive offices in Beijing. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. In some cases, we have not entered into formal lease agreements with the lessors or the lessors may not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis in conjunction with the selected financial data set forth in Item 3 and our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F.

Acquisitions of Unicom NewSpace, Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies

We completed (i) the 2011 Acquisition in respect of Unicom NewSpace in December 2011 and (ii) the 2009 Acquisition in respect of the acquisition of Target Business in January 2009. See A. History and Development of the Company Unicom Acquisitions and Sales 2011 Acquisition and A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China under Item 4, respectively. Because (i) we and Unicom NewSpace were under common control of Unicom Group both prior to and after the 2011 Acquisition and (ii) we and the Target Business were under common control of Unicom Group both prior to and after the 2009 Acquisition, each of the acquisitions is considered as a business combination of entities and businesses under common control and has been accounted for using merger accounting in accordance with AG 5 issued by the HKICPA in November 2005. Upon our adoption of IFRS, we adopted the accounting policy to account for business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that all the acquired entities and businesses mentioned above in this paragraph had always been under common control during all the periods presented, the assets and liabilities thereof are stated at predecessor values and are included in the consolidated financial statements included in this annual report on Form 20-F as if these entities and their businesses acquired had always been part of our company during all the periods presented.

Overview

We are an integrated telecommunications operator in China providing mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services to our customers through our two operating segments comprised of mobile services and fixed-line services. Following our acquisition of fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we have extended the coverage of all of our services nationwide. We, China Mobile and China Telecom are the three major telecommunications operators in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry under Item 4.

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The table below sets forth revenue from our major businesses and their respective percentage of our total revenue in 2009, 2010 and 2011 (excluding fixed-line upfront connection fees of RMB490 million in 2009, RMB192 million in 2010 and RMB15 million in 2011).

	For the Year Ended December 31,					
	2009 (Restated)[1]		2010 (Restated)[1]		2011	
	RMB in millions	As % of Total	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue (excluding fixed-line upfront connection fees)[2]	153,536	100.0	171,178	100.0	209,152	100.0
Total service revenue (excluding fixed-line upfront connection fees) [2]	151,373	98.6	163,891	95.7	185,870	88.9
Include: Mobile business	70,102	45.7	82,449	48.2	103,307	49.4
Fixed-line business	80,670	52.5	79,750	46.6	81,627	39.0
Out of which:						
Broadband service	23,898	15.6	29,822	17.4	35,226	16.8
Total sales of telecommunications products	2,163	1.4	7,287	4.3	23,282	11.1

(1) The comparative financial data of 2009 and 2010 presented herein was restated to reflect the effects of the 2011 Acquisition. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report.

Our service revenue primarily consists of the following:

- usage fees and monthly fees for our mobile and fixed-line telephone services, which are recognized when we render the service to our customers;

- revenue from the provision of value-added services, which is recognized when we render the services to our customers;

- revenue from the provision of broadband, data and other Internet-related services are recognized when the services are provided to customers;

- revenue from interconnection with other telecommunications operators for calls made from their networks to our networks. We recognize interconnection revenue when the relevant calls are made by subscribers;

- revenue for offerings which include the bundled sale of mobile handsets and provision of services. The total contract consideration of such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. We recognize revenue allocated to the sale of handset when the title of the handset is passed to the customer and recognize revenue allocated to the service element based upon the actual usage of mobile services. The cost of the mobile handset sold is expensed immediately to the statement of income;

- revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided is recoverable, service revenue should be recognized only to the extent of reasonable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred, or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and service revenue should not be recognized;

revenue from sales of telecommunications products (which mainly represent handsets and accessories) that are not bundled with mobile services are recognized when title of such products has been passed to the buyers; and rental income from leases of customer-end equipment and transmission lines on our networks to business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

The following table sets forth our major costs and expenses items and income before income tax, both in terms of amount and as a percentage of total revenue in 2009, 2010 and 2011 (excluding fixed-line upfront connection fees of RMB490 million in 2009, RMB192 million in 2010 and RMB15 million in 2011).

	For the Year Ended December 31,					
	2009 (Restated)[1]		2010 (Restated)[1]		2011	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Total revenue (excluding fixed-line upfront connection fees)[2]	153,536	100.0	171,178	100.0	209,152	100.0
Costs, expenses and others	141,870	92.4	166,786	97.4	203,569	97.3
Interconnection charges	12,955	8.4	13,727	8.0	16,380	7.8
Depreciation and amortization	47,745	31.1	54,654	31.9	58,021	27.7
Networks, operations and support expenses	23,740	15.5	26,387	15.4	29,449	14.1
Employee benefit expenses	21,947	14.3	23,348	13.6	26,601	12.7
Selling and marketing	21,020	13.7	23,735	13.9	28,750	13.8
Cost in relation to information communication technology services	839	0.5	896	0.5	1,410	0.7
General, administrative and other expenses	12,192	7.9	12,966	7.6	13,426	6.4
Cost of telecommunications products sold	2,689	1.8	10,688	6.3	29,739	14.2
Finance costs, net of interest income	944	0.6	1,606	0.9	1,244	0.6
Realized gains on changes in fair value of derivative financial instrument	(1,239)	(0.8)	-	-	-	-
Other income-net	(962)	(0.6)	(1,221)	(0.7)	(1,451)	(0.7)

(1) The comparative financial data of 2009 and 2010 presented herein was restated to reflect the effects of the 2011 Acquisition and the change in accounting policy for property, plant and equipment upon the adoption of amended IFRS/HKFRS 1 in 2011. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report.

Our major costs and expenses include the following:

interconnection expenses, representing amounts paid to other operators for calls from our networks to their networks and for calls made by our subscribers roaming in their networks;

depreciation and amortization expenses, mainly relating to our property, plant and equipment and other assets;

networks, operations and support expenses, mainly relating to repair, maintenance and operations of our networks;

leasing fee for telecommunications networks in southern China;

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- employee benefit expenses, representing staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes, housing benefits and share-based compensation costs amortized over the vesting period of options;

- selling and marketing expenses, including commissions, promotion and advertising expenses, direct incremental costs for activating subscriber services and customer retention costs;

- cost in relation to information communication technology services, primarily including cost of hardware sold;

- general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses;

- cost of telecommunications products sold; and

- finance costs, net of interest income, primarily including interest expenses, net of interest income.

Critical Accounting Policies

The preparation of our financial statements and this annual report on Form 20-F requires us to make estimates and judgments that affect the reported and disclosed amounts of assets and liabilities, including contingent assets and liabilities, as of the relevant dates and revenue and expenses for the relevant periods. We have identified below the areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the accounting policies and estimates, as critical to our business operations and an understanding of our results of operations and financial position. The impact and any associated risks related to these policies on our business operations are discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a discussion of the application of these and other accounting policies, see Note 4 to our consolidated financial statements included elsewhere in this annual report on Form 20-F. There can be no assurance that actual results will not differ from those estimates and assumptions.

Significant Accounting Policies

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the services and sales of goods or telecommunications products in the ordinary course of our business activities. Revenue is shown net of business tax, government surcharges, returns and discounts and after eliminating sales within our company.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services and goods

- Usage fees and monthly fees are recognized when the services are rendered;

- Revenue from the provision of broadband and other Internet-related services and managed data services are recognized when the services are provided to customers;

Lease income from leasing of lines and customer-end equipment are treated as operating leases with rental income recognized on a straight-line basis over the lease term;

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Value-added services revenue, which mainly represents revenue from the provision of services such as SMSs, Cool Ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;

Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

For offerings which include the bundled sale of mobile handsets and provision of services, the total contract consideration of such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognized when the title is passed to the customer whereas service revenue is recognized based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition; and

Revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided are recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis, using the effective interest method.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including upfront connection fees and installation fees of fixed-line business and receipts from the activation of SIM/USIM cards relating to our mobile businesses, which are deferred and recognized over the expected customer service period.

Advances from customers

Advances from customers are amounts paid by customers for prepaid cards, other calling cards and prepaid service fees, which cover future telecommunications services (over a period of one to twelve months). Advances from customers are stated at the amount of proceeds received less the amount already recognized as revenue upon the rendering of services.

Subscriber points reward program

The fair value of providing telecommunications services and the subscriber points reward are allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired. The fair value of deferred revenue is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each balance sheet date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

Critical Accounting Estimates and Judgments

Recognition of Upfront Non-Refundable Revenue and Direct Incremental Costs

We defer and amortize upfront activation fees of SIM/USIM cards of the mobile business over the expected customer service period of 3 years (2009: approximately 3 years; 2010: approximately 3 years). The related direct incremental costs of acquiring and activating mobile subscribers, including costs of SIM/USIM cards and commissions, are also deferred and amortized over the same expected customer service period of 3 years.

We defer and amortize upfront customer installation and testing fees of the fixed-line business over the expected customer service period of 10 years (2009: approximately 10 years; 2010: approximately 10 years). The related direct incremental installation costs are deferred and amortized over the same expected customer service period of 10 years.

We only defer costs to the extent that they will generate future economic benefits. The excess of the direct incremental costs over the corresponding upfront non-refundable revenue, if any, is expensed to the statement of income immediately.

We estimate the expected customer service period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to our services, technological innovation, and the expected changes in the regulatory and social environment. If our estimate of the expected customer service period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenue and direct incremental costs may change for future periods.

Lease of Telecommunications Networks in Southern China

Pursuant to the initial network lease agreement and the 2011-2012 network lease agreement, Unicom New Horizon has the legal ownership of the Telecommunications Networks in southern China. We believe we only bear the risks associated with the operation of the fixed-line business in southern China during the relevant leasing periods and are free from any ownership risks of the telecommunications networks, and the risks and rewards of ownership of the leased assets rest substantially with the lessor. In addition, at the inception of the initial network lease agreement dated December 16, 2008, there was a high degree of uncertainty related to the market condition and operating results of the fixed-line business in southern China. It was highly uncertain whether we would continue to lease the network in the future, and we were unable to determine whether or not we would exercise the purchase option in the future. In the event that CUCL elects to exercise this purchase option, the parties will discuss and negotiate the purchase price with reference to the appraised value of the telecommunications networks in southern China, which is to be determined in accordance with applicable laws of Hong Kong and China, after taking into account the prevailing market conditions and other factors. Given these uncertainties and due to the fact that the risks associated with the ownership of the Telecommunications Networks in Southern China substantially remained with Unicom New Horizon, accordingly, we accounted for the leasing of the Telecommunications Networks in Southern China as an operating lease.

At the beginning of each lease term, we assess the appropriate classification based on the relevant factors and circumstances at that time. On October 29, 2010, CUCL entered into the 2011-2012 network lease agreement with Unicom New Horizon. The 2011-2012 network lease agreement has an initial term of two years, effective from January 1, 2011 and expiring on December 31, 2012, which is renewable at the option of CUCL with at least two months prior notice on the same terms and conditions as the initial network lease agreement dated December 16, 2008, except that the annual fee payable by CUCL for such lease for the two years ending December 31, 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively. At the time of entering into the 2011-2012 network lease agreement, we still believed the uncertainties of the fixed-line business in southern China continue to exist, particularly due to the fact that (i) the growth of the fixed-line business in southern China was not significant; (ii) the future success of the fixed-line business in southern China remained uncertain, in light of the keen market competition; and (iii) the technology, technological standards and government regulatory environment in respect of the relevant business are still subject to uncertainties. Accordingly, we were not in a position to determine whether we would renew the lease after the initial two-year lease term or whether we would exercise the purchase option upon the entering into the 2011-2012 network lease agreement. As a result, we considered the risks associated with the ownership of the Telecommunications Networks in Southern China still substantially remain with Unicom New Horizon, and therefore accounted for the leasing of Telecommunications Networks in Southern China under the 2011-2012 network lease agreement as an operating lease. The operating lease expense was recorded in the consolidated statement of income for the years ended December 31, 2009, 2010 and 2011, but the carrying value of the Telecommunications Networks in Southern China and the related liabilities were not reflected in the consolidated balance sheets as of December 31, 2010 and 2011.

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Depreciation on Property, Plant and Equipment

Depreciation on our property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. We review the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. We estimate the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

Impairment of Non-Financial Assets

We test whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.11 to the audited consolidated financial statements contained elsewhere in this annual report. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management s assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and our results would be significantly affected. Such impairment losses are recognized in the statement of income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

No significant impairment loss on property, plant and equipment was recognized for the years ended December 31, 2009, 2010 and 2011.

Income Tax and Deferred Taxation

We estimate our income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which we are entitled in each location or jurisdiction in which we operate. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, we have assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to unrecognized revaluation surplus on prepayments for the leasehold land and buildings determined under PRC regulations, accruals of expenses not yet deductible for tax purpose, changes in fair value on financial assets through other comprehensive income, and provision for doubtful debts. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to approximately RMB5,091 million as at December 31, 2011 (2010: approximately RMB4,940 million). Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

We believe we have recorded adequate income tax provision and deferred taxes based on the prevailing tax rules and regulations and our current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to income tax and deferred taxation may be necessary which would impact our results or financial position.

Recently Issued International Financial Reporting Standards/Hong Kong Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs and interpretations that are first effective for the current accounting period commencing January 1, 2011 or are available for early adoption. The equivalent new and revised HKFRSs and interpretations consequently issued by the HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs.

Up to the date of issue of our 2011 financial statements, the following new standard and amendment or revision to existing standard has been issued but not yet effective for the annual accounting period ended December 31, 2011 and has not been adopted by us:

	Effective for annual accounting period beginning on or after
IFRS/HKFRS 7 (amendment) Financial instruments: disclosures	July 1, 2011
IAS/HKAS 1 (amendment) Presentation of financial statements	January 1, 2012
IFRS/HKFRS 10 Consolidated financial statements	January 1, 2013
IFRS/HKFRS 13 Fair value measurements	January 1, 2013

On January 1, 2011, we early adopted IFRS/HKFRS 9 Financial instruments . Upon adoption of this standard, we classified the investments in equity instruments as those measured at fair value and transferred the balance of available-for-sale fair value reserve to investment revaluation reserve. In addition, we made an irrevocable election upon initial adoption of the standard to recognize changes in fair value of these financial assets only through other comprehensive income. Thus, all subsequent fair value or disposal gains or losses will not be recognized in the statement of income. IFRS/HKFRS 9 is applied retrospectively to all periods presented.

In 2011, we adopted the amended IFRS/HKFRS 1 First-Time Adoption of International/Hong Kong Financial Reporting Standards. We had completed our IPO process and merger of businesses under common control before the adoption of IFRS and the property, plant and equipment were revalued for the purpose of the transactions. Such revaluations were event-driven fair value measurements. Accordingly, upon adoption of the amended IFRS/HKFRS 1, we applied such event-driven fair value measurements as deemed cost for the relevant property, plant and equipment (other than buildings and telecommunications equipment of mobile business which were accounted for using the cost model) retrospectively. The restated deemed costs of these assets would be subject to depreciation and impairment assessments. Since subsequent re-measurement at fair value of property, plant and equipment is not necessary to comply with IAS/HKAS 16 Property, Plant and Equipment as a result of the adoption of this standard, we changed our accounting policy and measure all of our property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. As a result, those revaluation surpluses or deficits recognized as a consequence of the 2006 and 2008 revaluations have been reversed and their impacts on depreciation have been adjusted accordingly.

Operating Results

In the 2009 Acquisition, we did not purchase the underlying fixed-line network assets in southern China, but subsequently leased such assets from Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to operate the acquired fixed-line business. To account for this transaction, we recorded all assets, liabilities, revenue and costs and expenses associated with the acquired fixed-line business in southern China and the underlying network assets in our consolidated financial statements for the historical periods prior to the completion of the transaction in January 2009. Following the completion of this transaction, as we started to lease the fixed-line network assets in southern China, which were retained by the lessor, the assets and liabilities associated with these network assets were treated as a distribution by us to Unicom Group from other reserve using the merger accounting under HKFRS and predecessor values method under IFRS. Accordingly, we no longer include any assets, liabilities, depreciation, finance costs or other costs relating to such assets, but record only revenue generated from the acquired fixed-line business in southern China and the leasing fee for the relevant network assets in our consolidated financial statements for the subsequent periods.

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Unless otherwise noted, the selected consolidated financial statements data as of and for the years ended December 31, 2009 and 2010 under this Item 5 was restated to reflect the effects of the 2011 Acquisition and the change in accounting policy for property, plant and equipment upon the adoption of amended IFRS/HKFRS 1 in 2011. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

In 2011, we continued to face various challenges, including intensified telecommunications market competition, further downward adjustments in tariffs and decline of fixed-line voice business. We continued to actively develop full-service operation with a focus on 3G mobile services and fixed-line broadband business. Revenue for 2011 was RMB209.17 billion, representing an increase of 22.1% from RMB171.37 billion for 2010. Excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively, our revenue for 2011 would have been RMB209.15 billion, representing an increase of 22.2% from RMB171.18 billion in 2010, of which our service revenue would have been RMB185.87 billion in 2011, representing an increase of 13.4% from 2010.

Mobile Business Revenue

Revenue from our mobile business increased by 41.2% from RMB89.62 billion in 2010 to RMB126.53 billion in 2011. Of the revenue from our mobile business in 2010 and 2011, RMB82.45 billion and RMB103.31 billion, respectively, was from service revenue. Service revenue from our mobile business as a percentage of our total service revenue (excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively) increased from 50.3% in 2010 to 55.6% in 2011. The growth in revenue from our mobile business was primarily driven by the growth of our 3G business. Our ARPU increased in 2011 compared to 2010, primarily due to the change in revenue mix between our GSM business and 3G businesses. 3G business has a significantly higher ARPU than GSM business. As the revenue from 3G business increased significantly as a percentage of total service revenue from mobile business from 14.1% in 2010 to 31.7% in 2011, the overall ARPU of our mobile business increased from RMB43.7 in 2010 to RMB47.3 in 2011. In addition, to effectively develop our 3G mobile data business, we sought to enhance customer experiences by incentivizing customers to upgrade their handsets. To this end, we offered a broad range of attractive bundled packages of mid- to high-end 3G handsets and 3G services in 2011. This initiative resulted in a significant increase in our mobile Internet service revenue as well as revenue from the sales of mobile telecommunications products in 2011.

The total number of our mobile subscribers was 199.66 million as of December 31, 2011, with a net addition of 32.23 million subscribers (including 25.96 million 3G subscribers) from the end of 2010. ARPU of our GSM mobile business was RMB37.4 in 2011, representing a decrease of 5.3% from RMB39.5 in 2010. ARPU of our 3G business was RMB110.0 in 2011, representing a decrease of 11.3% from RMB124.0 in 2010.

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The table below sets forth the revenue composition of our mobile business and each revenue item s respective share of total revenue for the years ended December 31, 2010 and 2011.

	2010 (Restated)[1]		2011	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile business	89,622	100.0	126,526	100.0
Service revenue	82,449	92.0	103,307	81.6
Usage fees and monthly fees	47,004	52.4	54,186	42.8
Value-added service revenue	25,920	28.9	37,880	29.9
Interconnection revenue	9,022	10.1	10,726	8.5
Other service revenue	503	0.6	515	0.4
Sales of mobile telecommunications products	7,173	8.0	23,219	18.4

(1) The financial data of 2010 presented herein was restated to reflect the effects of the 2011 Acquisition. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Usage Fees and Monthly Fees. Primarily as a result of an increase in mobile subscribers, usage fees and monthly fees for our mobile services were RMB54.19 billion in 2011, representing an increase of 15.3% from RMB47.00 billion in 2010.

Value-Added Service Revenue. Value-added service revenue consists primarily of revenue from our 3G value-added services and GSM value-added services. In 2011, we continued to actively promote mobile data business of our 3G business and improved the penetration of mobile Internet services. As a result, revenue from our mobile value-added services amounted to RMB37.88 billion in 2011, representing an increase of 46.1% from RMB25.92 billion in 2010 and as a percentage of total mobile revenue increased from 28.9% in 2010 to 29.9% in 2011. Of the total revenue from mobile value-added services, revenue from mobile Internet services increased by 90.4% from RMB7.70 billion in 2010 to RMB14.65 billion in 2011, revenue from our SMS services increased by 4.6% from RMB8.13 billion in 2010 to RMB8.51 billion in 2011 and revenue from Cool Ringtone services increased by 6.7% from RMB3.08 billion in 2010 to RMB3.28 billion in 2011.

Interconnection Revenue. Our interconnection revenue increased by 18.9% from RMB9.02 billion in 2010 to RMB10.73 billion in 2011, and represented 8.5% of total mobile revenue in 2011 as compared with 10.1% in 2010. The increase in our interconnection revenue was primarily as a result of the increased total usage of our mobile services due to the increased total number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sale of mobile telecommunications products increased from RMB7.17 billion in 2010 to RMB23.22 billion in 2011, mainly due to our continuing efforts in promoting a broad range of new bundled packages of mid- to high-end 3G handsets and 3G services in 2011.

Fixed-Line Business Revenue

In 2011, we continued to develop our fixed-line broadband services and promoted our mobile and fixed-line bundled services. The trend of mobile substitution continued to have a negative impact on the revenue from our fixed-line voice business. Excluding fixed-line upfront connection fees of RMB192 million and RMB15 million in 2010 and 2011, respectively, our revenue from fixed-line business would have increased by 2.3% from RMB79.86 billion in 2010 to RMB81.69 billion in 2011, of which service revenue would have increased by 2.4% from RMB79.75 billion in 2010 to RMB81.63 billion in 2011. See D. Risk Factors We may further lose fixed-line and mobile subscribers and our doubtful debt ratios may increase, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

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The table below sets forth the revenue composition of our fixed-line business and each revenue item s respective share of total revenue from our fixed-line business for the years ended December 31, 2010 and 2011.

	For the Year Ended December 31,			
	2010 (Restated)[1]		2011	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line business[2]	79,864	100.0	81,690	100.0
Service revenue[2]	79,750	99.9	81,627	99.9
Usage fee and monthly fee	29,085	36.4	24,116	29.5
Broadband, managed data and other Internet-related services revenue	32,595	40.8	38,500	47.1
Interconnection revenue	5,243	6.6	4,579	5.6
Value-added service revenue	4,860	6.1	4,562	5.6
Leased line service revenue	5,589	7.0	6,859	8.4
Information communication technology services revenue	1,048	1.3	1,634	2.0
Others	1,330	1.7	1,377	1.7
Sales of fixed-line telecommunications products	114	0.1	63	0.1

(1) The financial data of 2010 presented herein was restated to reflect the effects of the 2011 Acquisition. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) Excluding fixed-line upfront connection fees of RMB192 million in 2010 and RMB15 million in 2011. Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. Therefore, we consider that analyses of our operating results excluding upfront connection fees are more relevant to the readers of this report.

Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long distance calls, long distance usage fees for domestic and international long distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

As a result of further implementation of the Calling-Party-Pays tariff policy for mobile services and continuing downward adjustments of tariffs for fixed-line services, the substitution effect of fixed-line local services by mobile services became more intense. In 2011, we experienced continuing decline in the number of fixed-line local telephone subscribers and revenue. Our local telephone subscribers decreased in 2011 by 3.9% from 96.64 million at the end of 2010 to 92.85 million at the end of 2011. ARPU of the local telephone business decreased by 11.1% from 2010 to RMB25.7 in 2011. Total usage of local calls decreased by 19.5% from 2010 to 125.28 billion pulses in 2011 (excluding Internet dial-up usage) and total usage of long distance calls decreased by 19.5% from 26.79 billion minutes in 2010 to 21.55 billion minutes in 2011. As a result, revenue from our usage fees and monthly fees in 2011 decreased by 17.1% from RMB29.09 billion in 2010 to RMB24.12 billion in 2011.

Broadband, managed data and other Internet-related services revenue. Revenue from our broadband, managed data and other Internet-related services include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our broadband, managed data and other Internet-related services increased by 18.1% from RMB32.60 billion in 2010 to RMB38.50 billion in 2011, primarily as a result of the increase in revenue from fixed-line broadband services.

In light of the continuing effect of mobile substitution, fixed-line broadband service has become the main growth driver of our fixed-line business revenue. In 2011, our fixed-line broadband business continued to maintain a rapid growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 17.8% from 47.22 million in 2010 to 55.65 million in 2011. ARPU of our fixed-line broadband business decreased by 1.2% from RMB57.1 in 2010 to RMB56.4 in 2011. However, revenue from our fixed-line broadband service increased by 18.2% from RMB29.80 billion in 2010 to RMB35.23 billion in 2011, and as a percentage of the total fixed-line revenue, increased from 37.3% in 2010 to 43.1% in 2011. Revenue from our managed data and other Internet-related services increased by 18.1% from RMB2.77 billion in 2010 to RMB3.27 billion in 2011.

Interconnection Revenue. Revenue from our interconnection services consists of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long distance calls. Revenue from our interconnection services decreased by 12.7% from RMB5.24 billion in 2010 to RMB4.58 billion in 2011. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Service Revenue. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services decreased by 6.1% from RMB4.86 billion in 2010 to RMB4.56 billion in 2011, mainly due to the decrease in the usage of our caller identification, Personalized Ring, and PHS SMS services as a result of the significant reduction of our fixed-line telephone subscribers, including PHS subscribers.

Leased Line Service Revenue. Revenue from our leased line services consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Revenue from our leased line services increased by 22.7% from RMB5.59 billion in 2010 to RMB6.86 billion in 2011, which was primarily due to the increased demand of leased line services from our local government and corporate customers.

Information Communication Technology Services Revenue. Information communication technology services revenue increased by 55.9% from RMB1.05 billion in 2010 to RMB1.63 billion in 2011, mainly as a result of our new system integration projects in 2011 for government and large corporate customers.

Others. Other fixed-line related revenue mainly consists of miscellaneous revenue items. Other fixed-line related revenue increased by 3.5% from RMB1.33 billion in 2010 to RMB1.38 billion in 2011.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products decreased by 44.7% from RMB0.11 billion in 2010 to RMB0.06 billion in 2011, mainly due to the decrease in sales of telecommunications terminal products such as telephone sets associated with local voice services in 2011.

Costs, Expenses and Others

Total costs, expenses and others in 2011 were RMB203.57 billion, representing an increase of 22.1% from RMB166.79 billion in 2010.

Mobile Business Operating Costs and Expenses

Operating costs and expenses for our mobile business in 2011 were RMB92.26 billion, representing an increase of 46.5% from RMB62.98 billion in 2010. The table below sets forth the principal items of operating costs and expenses from mobile business and their respective percentage of service revenue from mobile business for the years 2010 and 2011:

	For the Year Ended December 31,			
	2010 (Restated)[1]		2011	
	RMB in millions	% of Total	RMB in millions	% of Total
Service revenue from mobile business	82,449	100.0	103,307	100.0
Mobile business costs and expenses	62,980	76.3	92,262	89.3
Interconnection charges	14,452	17.5	17,442	16.9
Depreciation and amortization	23,362	28.3	26,151	25.3
Networks, operations and support expenses	3,106	3.8	4,270	4.1
Selling and marketing expenses	9,390	11.4	12,284	11.9
General, administrative and other expenses	2,175	2.6	2,489	2.4
Cost of telecommunications products sold	10,495	12.7	29,626	28.7

(1) The financial data of 2010 presented herein was restated to reflect the effects of the 2011 Acquisition and the change in accounting policy for property, plant and equipment upon the adoption of amended IFRS/HKFRS 1 in 2011. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Interconnection Charges. Interconnection charges from mobile business were RMB17.44 billion in 2011, up by 20.7% from 2010, primarily due to an increase in mobile interconnection traffic volume resulting from the increased total usage of our mobile services. Interconnection charges from mobile business as a percentage of service revenue from mobile business were 16.9% and 17.5% in 2011 and 2010, respectively.

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Depreciation and Amortization. Our depreciation and amortization expenses from mobile business were RMB26.15 billion in 2011, up by 11.9% from 2010. The increase was primarily due to our efforts in improving our 3G network capacity, expanding the 3G network coverage and optimizing our GSM network, which increased the relevant fixed assets that are subject to depreciation. As a percentage of service revenue from mobile business, our depreciation and amortization expenses from mobile business decreased from 28.3% in 2010 to 25.3% in 2011.

Networks, Operations and Support Expenses. Due to various factors, including the expansion of networks coverage, the increase in network assets and the increase in infrastructure charges such as utilities charges and rental expenses, we incurred networks, operations and support expenses from mobile business of RMB4.27 billion in 2011, up by 37.5% from 2010. Networks, operations and support expenses from mobile business, as a percentage of service revenue from mobile business, increased from 3.8% in 2010 to 4.1% in 2011. As a result of an increase in the lease of underlying telecommunications networks from other telecommunications operators, the related line leasing fees was RMB0.74 billion, up by 116.2% from 2010.

Selling and Marketing Expenses. Due to various factors, including the increased promotion of our key businesses, such as 3G business, and the increased costs of customer retention and channel subsidies, our selling and marketing expenses from mobile business reached RMB12.28 billion in 2011, up by 30.8% from 2010, and as a percentage of service revenue from mobile business, increased from 11.4% in 2010 to 11.9% in 2011.

General, Administrative and Other Expenses. We continued to closely control the increase in general and administrative expenses from mobile business. Our general, administrative and other expenses from mobile business were RMB2.49 billion in 2011, up by 14.4% compared with 2010, and, as a percentage of service revenue from mobile business, slightly decreased from 2.6% in 2010 to 2.4% in 2011.

Cost of Telecommunications Products Sold. In 2011, we continued to proactively promote 3G handsets subsidy policies and launched a number of newly defined 3G handsets models. As a result, the cost of mobile telecommunications products sold amounted to RMB29.63 billion, up by 182.3% from 2010. Correspondingly, revenue from sales of mobile telecommunications products in 2011 amounted to RMB23.22 billion, up by 223.7% from 2010.

Fixed-Line Business Operating Costs and Expenses

Operating costs and expenses for our fixed-line business in 2011 were RMB52.07 billion, representing an increase of 2.8% from RMB50.63 billion in 2010. The table below sets forth the principal items of operating costs and expenses from fixed-line business and their respective percentage of the total telecommunications services revenue for the years 2010 and 2011:

	For the Year Ended December 31,			
	2010 (Restated)[1]		2011	
	RMB in millions	% of Total	RMB in millions	% of Total
Services revenue from fixed-line business[2]	79,750	100.0	81,627	100.0
Fixed-line business costs and expenses	50,634	63.4	52,071	63.7
Interconnection charges	3,706	4.7	3,533	4.3
Depreciation and amortization	29,028	36.4	29,358	36.0
Networks, operations and support expenses	9,409	11.8	9,467	11.6
Selling and marketing	6,647	8.3	7,416	9.1
Cost in relation to information communication technology services	897	1.1	1,410	1.7
General, administrative and other expenses	754	0.9	774	0.9
Cost of telecommunications products sold	193	0.2	113	0.1

(1) The financial data of 2010 presented herein was restated to reflect the effects of the 2011 Acquisition and the change in accounting policy for property, plant and equipment upon the adoption of amended IFRS/HKFRS 1 in 2011. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

(2) Excludes fixed-line upfront connection fees of RMB192 million in 2010 and RMB15 million in 2011.

Interconnection Charges. Interconnection charges from fixed-line business were RMB3.53 billion in 2011, down by 4.7% from 2010, primarily due to a decrease in fixed-line voice interconnection traffic volume. This was as a result of the decrease in the total usage of our fixed-line voice services. The decrease in interconnection charges is consistent with the decrease in interconnection revenues. Interconnection charges as a percentage of service revenue from fixed-line business (excluding fixed-line upfront connection fees) were 4.3% and 4.7% in 2011 and 2010, respectively.

Depreciation and Amortization. Our depreciation and amortization expenses from fixed-line business were RMB29.36 billion in 2011, up by 1.1% from 2010. The increase was primarily because we increased investments in upgrading broadband network and expanding our coverage. These investments resulted in an increase in our broadband network assets that are subject to depreciation. As a percentage of service revenue from fixed-line business (excluding fixed-line upfront connection fees), our depreciation and amortization expenses from fixed-line business decreased from 36.4% in 2010 to 36.0% in 2011.

Networks, Operations and Support Expenses. We incurred networks, operations and support expenses from fixed-line business of RMB9.47 billion in 2011, up by 0.6% from 2010. As a percentage of service revenue from fixed-line business (excluding fixed-line upfront connection fees), networks, operations and support expenses from fixed-line business decreased from 11.8% in 2010 to 11.6% in 2011.

Selling and Marketing Expenses. Primarily due to (i) the adoption of various marketing initiatives to retain our fixed-line subscribers, participating broadband services subscribers, and (ii) an increase in costs of channel subsidies, our selling and marketing expenses from fixed-line business were RMB7.42 billion in 2011, up by 11.6% from 2010, and as a percentage of service revenue from fixed-line business (excluding fixed-line upfront connection fees), increased from 8.3% in 2010 to 9.1% in 2011.

Cost in Relation to Information Communication Technology Services. Cost in relation to information communication technology in 2011 was RMB1.41 billion, up by 57.2% from 2010. Correspondingly, revenue from ICT services in 2011 was RMB1.63 billion, up by 55.9% from 2010.

General, Administrative and Other Expenses. We continued to closely control the increase in general and administrative expenses. Our general, administrative and other expenses from fixed-line business were RMB0.77 billion in 2011, up by 2.7% compared with 2010. Our general, administrative and other expenses from fixed-line business as a percentage of service revenue from fixed-line business (excluding fixed-line upfront connection fees) remained stable at 0.9% in 2010 and 2011.

Cost of Telecommunications Products Sold. The cost of fixed-line telecommunications products sold was RMB0.11 billion in 2011, down by 41.5% from 2010. Correspondingly, revenue from sales of fixed-line telecommunications products in 2011 amounted to RMB0.06 billion, down by 44.7% from 2010.

Unallocated Costs and Expenses

The unallocated costs and expenses primarily represent corporate and shared service expenses that are not directly attributable to any of our operating segments. The unallocated costs and expenses also include certain statement of income items, such as employee benefit expenses, interest income, finance costs and other income, that cannot be directly identified to specific operating segments.

Employee Benefit Expenses. As the average social wages continued to increase in China and due to the implementation of our employee incentive, evaluation and allocation mechanism, our employee benefit expenses increased by 13.9% from 2010 to RMB26.60 billion in 2011, and as a percentage of service revenue (excluding fixed-line upfront connection fees), increased from 14.2% in 2010 to 14.3% in 2011.

Finance Costs, Net of Interest Income. Our finance costs, net of interest income, decreased by 22.5% from RMB1.61 billion in 2010 to RMB1.24 billion in 2011, which was primarily due to the increase in gain from foreign currency exchanges driven by the appreciation of RMB, partially offset by an increase of 22.2% in interest expenses from RMB1.91 billion in 2010 to RMB2.33 billion in 2011. The increase in our interest expenses was mainly due to the increase in our overall cost of capital from 3.1% in 2010 to 3.7% in 2011, as a result of the increase in the financing costs in the PRC financial market.

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Depreciation and Amortization Expenses. Depreciation and amortization expenses that are unallocated to mobile and fixed-line businesses were RMB2.63 billion in 2011, up by 12.6% from RMB2.34 billion in 2010. The increase was primarily as a result of an increase in our information system assets.

Networks, Operations and Support Expenses. Networks, operations and support expenses that are unallocated to mobile and fixed-line businesses were RMB15.72 billion in 2011, up by 13.3% from RMB13.88 in 2010, which was primarily due to the increases in utility charges and rental expenses as a result of our increased number of base stations and business premises.

Other Operating Expenses. Other operating expenses consist of selling and marketing expenses, general, administrative and other expenses and cost in relation to information communication technology services. Other operating expenses that are unallocated to mobile and fixed-line businesses were RMB19.58 billion in 2011, up by 8.5% from RMB18.04 in 2010, which was mainly due to the increase in expenses for advertisement and customer retention initiatives.

Other Income-Net. In 2011, other income-net was RMB1.45 billion, up by 18.7% from 2010. The increase was primarily as a result of the dividends of RMB0.87 billion received from our investment in Telefónica and others, up by RMB0.39 billion from 2010.

Income Before Income Tax

In 2011, our income before income tax was RMB5.60 billion, up by 22.1% from 2010, mainly due to the increase in our revenue from mobile business, especially 3G business.

In order to ensure the comparability of income before income tax and income for the year, we exclude the non-comparable factor of deferred fixed-line upfront connection fees of RMB15 million for 2011 and RMB192 million for 2010 for additional analysis purposes. After excluding the above factor, our income before income tax would have been RMB5.58 billion, up by 27.1% from 2010.

Income Tax

Our income tax was RMB1.37 billion in 2011, up by 55.3% from 2010, and our effective tax rate in 2011 was 24.5%, up by 5.2 percentage points from 2010. The increase in our income tax was largely due to the increases in our income before income tax and our effective tax rate. The increase in our effective tax rate is mainly due to the significant decrease in non-taxable deferred fixed-line upfront connection fees and the unavailability of certain one-off favorable tax treatments, such as the utilization of tax loss from the previous years of a subsidiary of our company against the current year taxable income. Excluding the factors discussed under Income Before Income Tax above, our effective tax rate in 2010 and 2011 would have been 20.1% and 24.6%, respectively.

Net Income for the Year

In 2011, our net income reached RMB4.23 billion, up by 14.2% from 2010. Our basic earnings per share was RMB0.18 in 2011. Excluding the factors discussed under the subsection Income Before Income Tax above, our net income would have been RMB4.21 billion, up by 20.0% from 2010.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

2010 is the second year that we had a full-year operation following our merger with China Netcom. Although China s economy experienced recovery from the global financial crisis, we continued to face various challenges, including intensified telecommunications market competition, further downward adjustments in tariffs and decline of fixed-line voice business. We continued to actively develop full-service operation with a focus on mobile and fixed-line broadband businesses. Revenue for 2010 was RMB171.37 billion, an increase of 11.3% from RMB154.03 billion for 2009. Excluding the effects of fixed-line upfront connection fees of RMB0.19 billion and RMB0.49 billion in 2010 and 2009, respectively, our revenue for 2010 would have been RMB171.18 billion, representing an increase of 11.5% from RMB153.54 billion in 2009, of which our service revenue would have been RMB163.89 billion in 2010, up by 8.3% from 2009.

Mobile Business Revenue

Revenue from our mobile business increased by 24.4% from RMB72.07 billion in 2009 to RMB89.62 billion in 2010. Of the revenue from our mobile business in 2009 and 2010, RMB70.10 billion and RMB82.45 billion, respectively, was from service. Service revenue from our mobile business as a percentage of our total service revenue (excluding fixed-line upfront connection fees of RMB0.19 billion and RMB0.49 billion in 2010 and 2009, respectively) increased from 46.3% in 2009 to 50.3% in 2010. The growth in revenue from our mobile business is primarily due to the continued increase in the total number of our mobile subscribers, as well as an increase in our subscribers ARPU. The increase in ARPU was due to the change of revenue mix between our GSM business and 3G business. 3G business has a significantly higher ARPU than GSM business. Therefore, despite the ARPU of each of our GSM and 3G businesses decreased in 2010 compared to 2009, as the revenue from 3G business increased significantly as a percentage of total service revenue from mobile business from 1.1% in 2009 to 21.0% in 2010, the overall ARPU of our mobile business increased. In 2010, service revenue from 3G business was RMB11.60 billion.

Our total number of mobile subscribers was 167.43 million as of December 31, 2010, with a net addition of 19.84 million subscribers (including 11.32 million 3G subscribers) from the end of 2009. ARPU of our GSM mobile business was RMB39.5 in 2010, a decrease of 4.1% from RMB41.2 in 2009. ARPU of our 3G business was RMB124.0 in 2010, a decrease of 12.5% from RMB141.7 in 2009.

The table below sets forth the revenue composition of our mobile business and each revenue item s respective share of total revenue for the years ended December 31, 2009 and 2010.

	2009 (Restated)[1]		**2010 (Restated)[1]**	
	RMB in millions	**As % of total**	**RMB in millions**	**As % of total**
Total revenue from mobile business	72,072	100.0	89,622	100.0
Service revenue	70,102	97.3	82,449	92.0
Usage fees and monthly fees	42,297	58.7	47,004	52.4
Value-added service revenue	19,150	26.6	25,920	28.9
Interconnection revenue	8,220	11.4	9,022	10.1
Other service revenue	435	0.6	503	0.6
Sales of mobile telecommunications products	1,970	2.7	7,173	8.0

(1) The financial data of 2009 and 2010 presented herein was restated to reflect the effects of the 2011 Acquisition. See Note 2.2 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Usage Fees and Monthly Fees. As a result of an increase in mobile subscribers, partially offset by the decrease in effective tariffs, usage fees and monthly fees for our mobile services were RMB47.00 billion in 2010, an increase of 11.1% from RMB42.30 billion in 2009.

Value-Added Service Revenue. Value-added service revenue consists primarily of revenue from our 3G value-added services and GSM value-added services. In 2010, we continued to actively promote mobile value-added services and mobile data business, and improved the penetration of SMS, Cool Ringtone and mobile Internet services. As a result, revenue from our mobile value-added services amounted to RMB25.92 billion in 2010, representing an increase of 35.4% from RMB19.15 billion in 2009 and as a percentage of total mobile revenue increased from 26.6% in 2009 to 28.9% in 2010. Of the total revenue from mobile value-added services, revenue from our SMS services increased by 1.6% from RMB8.00 billion in 2009 to RMB8.13 billion in 2010, revenue from Cool Ringtone services increased by 6.8% from

RMB2.88 billion in 2009 to RMB3.08 billion in 2010 and revenue from mobile Internet services increased by 390.0% from RMB2.80 billion in 2009 to RMB7.70 billion in 2010.

Interconnection Revenue. Our interconnection revenue increased by 9.8% from RMB8.22 billion in 2009 to RMB9.02 billion in 2010, and represented 10.1% of total mobile revenue in 2010 as compared with 11.4% in 2009. This increase is primarily as a result of the increased total usage of our mobile services due to the increased total number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sale of mobile telecommunications products increased from RMB1.97 billion in 2009 to RMB7.17 billion in 2010, mainly due to our continuing efforts in promoting our bundled sale of 3G mobile handsets and provision of 3G mobile services.

Fixed-Line Business Revenue

In 2010, as mobile substitution further intensified and the declining trend of the fixed-line voice business continued, we further developed our fixed-line broadband services and promoted our mobile and fixed-line bundled services. Excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.19 billion in 2009 and 2010, respectively, our revenue from fixed-line business would have decreased by 1.2% from RMB80.86 billion in 2009 to RMB79.86 billion in 2010, of which service revenue would have decreased by 1.1% from RMB80.67 billion in 2009 to RMB79.75 billion in 2010. See D. Risk Factors We may further lose fixed-line and mobile subscribers and our doubtful debt ratios may increase, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

The table below sets forth the revenue composition of our fixed-line business and each revenue item s respective share of total revenue from our fixed-line business for the years ended December 31, 2009 and 2010.

	For the Year Ended December 31,			
	2009 (Restated)(1)		2010 (Restated)(1)	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line business(2)	80,863	100.0	79,864	100.0
Service revenue(2)	80,670	99.8	79,750	99.9
Usage fee and monthly fee	34,369	42.5	29,085	36.4
Broadband, managed data and other Internet-related services revenue	26,364	32.6	32,595	40.8
Interconnection revenue	5,599	6.9	5,243	6.6
Value-added service revenue	5,238	6.5	4,860	6.1
Leased line service revenue	5,683	7.0	5,589	7.0
Information communication technology services revenue	1,035	1.3		