

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

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

(Translation of Registrant's Name Into English)

Hong Kong

(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, 2008, 23,767,925,322 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 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

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 No

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 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

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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, 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; 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 intended to identify 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 changes in the structure or functions of the primary industry regulator, the Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), or changes in the regulatory policies of the MIIT, the State-owned Assets Supervision and Administration Commission, or the SASAC, and other relevant government authorities of the PRC;
- results of the ongoing restructuring of the PRC telecommunications industry;
- 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;
- 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;
- effects of our restructuring and integration following the completion of our merger with China

Netcom Group Corporation (Hong Kong) Limited;

- effects of our proposed adjustments in our business strategies relating to the personal handyphone system, or PHS, business;
- effects of our acquisition from our parent companies of certain telecommunications business and assets, including the fixed-line business in 21 provinces in southern China, in January 2009;
- changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans;
- changes in the political, economic, legal and social conditions in the PRC, including the PRC Government's policies and initiatives with respect to economic development in light of the current 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; and
- the potential continued slowdown of economic activities inside and outside the PRC.

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) Limited (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 predecessors 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 and provinces 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 — Recent Developments — 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”, “SEHK” 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 the United States of America, and references to “HK dollars” or “HK\$” are to the currency of the Hong Kong Special Administrative Region of the PRC.

**Special Note on Our Financial Information and Certain Statistical Information Presented
in This Annual Report**

Our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB. These financial statements also comply with Hong Kong Financial Reporting Standards, or HKFRS, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, or HKICPA. As applied to our company, HKFRS is consistent with IFRS in all material respects. Pursuant to the requirement under IFRS 1: First-Time Adoption of International Financial Reporting Standards, or IFRS 1, the date of our transition to IFRS was determined to be January 1, 2007, which is the beginning of the earliest period for which we present full comparative information in our consolidated financial statements. With due regard to our accounting policies in previous periods and the requirements of IFRS 1, we have concluded that no adjustments were required to the amounts reported under HKFRS as at January 1, 2007 or in respect of the year ended December 31, 2007. As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 included in this annual report on Form 20-F. PricewaterhouseCoopers, our independent registered public accounting firm, has issued an auditor's report on our financial statements prepared in accordance with IFRS as issued by the IASB.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP. Furthermore, pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, no audited financial statements and financial information prepared under IFRS for the year ended December 31, 2006 have been included in this annual report on Form 20-F.

The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2005 and 2006 were prepared in accordance with HKFRS. The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2004 and before were prepared in accordance with Hong Kong GAAP.

The statistical information set forth in this annual report on Form 20-F relating to the PRC 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 the PRC.

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 each of the years in the two-year period ended December 31, 2008. Except for amounts presented in U.S. dollars, the selected historical consolidated balance sheet data and consolidated income statement data as of and for the years ended December 31, 2007 and 2008 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. As disclosed above under “Special Note on Our Financial Information and Certain Statistical Information Presented in this Annual Report”, our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 have been prepared and presented in accordance with IFRS as issued by the IASB. These financial statements also comply with HKFRS.

We completed a 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 segment as discontinued operations and the CDMA business is presented separately as discontinued operations in our audited consolidated statement of income and statement of cash flows for the year ended December 31, 2008. As a result, the 2007 comparative figures in our audited consolidated statement of income and statement of cash flows included in this annual report on Form 20-F have been restated accordingly.

In addition, we completed a merger with China Netcom in October 2008. See “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” under Item 4. Because we and China Netcom were under the common control of the PRC Government both prior to and after the merger, 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. In addition, we completed an acquisition of assets and business of the Guizhou Province branch of Unicom Group, or Unicom Guizhou, from Unicom Group in December 2007 and 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. Because we and Unicom Guizhou were under the common control of Unicom Group both prior to and after our acquisition of Unicom Guizhou and 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, both acquisitions have been accounted for using merger accounting in accordance with AG5 issued by the HKICPA. 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. The acquired assets and liabilities of China Netcom, Unicom Guizhou and Design Institute are stated at historical cost, 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. Accordingly, the 2007 comparative figures in the consolidated financial information included in this Form 20-F have been restated to reflect the financial positions, results of operations and cash flows of these acquired businesses.

Prior to our merger with China Netcom, China Netcom completed a 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. In accordance with IFRS/HKFRS 5, we recognized the fixed-line business in the Guangdong and Shanghai branches as discontinued operations, and the fixed-line business in the Guangdong and Shanghai branches are presented separately as discontinued operations in our audited consolidated statement of income and statement of cash flows for the year ended December 31, 2007.

In this annual report on Form 20-F, we have translated certain Renminbi and Hong Kong dollar amounts into U.S. dollars at the rate of RMB6.8225 = US\$1.00 and HK\$7.7499 = US\$1.00, the noon buying rates for these currencies in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. We translate these amounts solely for your convenience, and these translations should not be construed as representations that, on such or any other date, the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

As of or for the year ended December 31		
2007	2008	2008
RMB	RMB	US\$ ⁽¹⁾

(in millions, except for per share data)

Consolidated Income Statement Data:

CONTINUING OPERATIONS

Revenue⁽²⁾

GSM mobile business

Service revenue	62,547	64,704	9,484
Sales of GSM mobile telecommunications products	12	550	81
Total GSM revenue	62,559	65,254	9,565

Fixed-line business

Service revenue ⁽²⁾	87,200	82,548	12,099
Sales of fixed-line telecommunications products	928	1,104	162
Total fixed-line revenue	88,128	83,652	12,261

Total revenue **150,687** **148,906** **21,826**

Total costs and expenses **(123,446)** **(140,765)** **(20,633)**

Income from continuing operations before income tax **27,241** **8,141** **1,193**

Income tax expenses (7,083) (1,801) (264)

Income from continuing operations **20,158** **6,340** **929**

DISCONTINUED OPERATIONS⁽³⁾

Income from discontinued operations	654	1,438	211
Gain on the disposal of discontinued operations	626	26,135	3,831

Net income **21,438** **33,913** **4,971**

Earnings per share for income attributable to the equity holders of the Company during the year

-Basic earnings per share ⁽⁴⁾	0.93	1.43	0.21
-Diluted earnings per share ⁽⁴⁾	0.92	1.42	0.21
-Basic earnings per ADS ⁽⁵⁾	9.29	14.28	2.09
-Diluted earnings per ADS ⁽⁵⁾	9.19	14.16	2.08

Earnings per share for income from continuing operations attributable to the equity holders of the Company during the year

-Basic earnings per share ⁽⁴⁾	0.87	0.27	0.04
-Diluted earnings per share ⁽⁴⁾	0.86	0.27	0.04
-Basic earnings per ADS ⁽⁵⁾	8.74	2.67	0.39
-Diluted earnings per ADS ⁽⁵⁾	8.64	2.65	0.39

Earnings per share for income from discontinued operations attributable to the equity holders of the Company during the year

-Basic earnings per share ⁽⁴⁾	0.06	1.16	0.17
-Diluted earnings per share ⁽⁴⁾	0.06	1.15	0.17

	As of or for the year ended December 31		
	2007	2008	2008
	RMB	RMB	US\$ ⁽¹⁾
	(in millions, except for per share data)		
-Basic earnings per ADS ⁽⁵⁾	0.55	11.61	1.70
-Diluted earnings per ADS ⁽⁵⁾	0.55	11.52	1.69
-Number of shares outstanding for basic earnings per share ⁽⁴⁾	23,075	23,751	23,751
-Number of shares outstanding for diluted earnings per share ⁽⁴⁾	23,321	23,941	23,941
-Number of ADS outstanding for basic earnings per ADS ⁽⁵⁾	2,308	2,375	2,375
-Number of ADS outstanding for diluted earnings per ADS ⁽⁵⁾	2,332	2,394	2,394

Consolidated Balance Sheet Data:

Assets

Cash and cash equivalent and short-term bank deposits	12,714	9,476	1,389
Property, plant and equipment	276,110	283,912	41,614
Proceeds receivable for the disposal of the CDMA business	—	13,140	1,926
Total assets	334,087	344,924	50,557

Liabilities

Payables in relation to the disposal of the CDMA business	—	4,232	620
Short-term bank loans	11,850	10,780	1,580
Short-term commercial paper	20,000	10,000	1,466
Current portion of long-term bank loans	7,411	1,216	178
Current portion of obligations under finance lease	103	—	—
Long-term debt	16,086	997	146
Corporate bonds	2,000	7,000	1,026
Total liabilities	155,571	138,214	20,259

Shareholders' equity

Share capital	1,437	2,329	341
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Other Financial Data:

CONTINUING OPERATIONS

Net cash inflow from operating activities of continuing operations	65,256	56,674	8,307
Net cash outflow from investing activities of continuing operations	(47,641)	(54,490)	(7,987)
Net cash outflow from financing activities of continuing operations	(29,805)	(35,070)	(5,140)
Net cash outflow from continuing operations	(12,190)	(32,886)	(4,820)

DISCONTINUED OPERATIONS⁽³⁾

Net cash inflow from operating activities of discontinued operations	1,225	656	96
Net cash inflow from investing activities of discontinued operations	3,078	29,489	4,322
Net cash outflow from financing activities of discontinued operations	—	—	—
Net cash inflow from discontinued operations	4,303	30,145	4,418

Net decrease in cash and cash equivalents	(7,887)	(2,741)	(402)
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Dividend declared per share	0.20	0.20	0.03
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(1) The translation of RMB into US dollars has been made at the rate of RMB6.8225 to US\$1.00, the noon buying rate in New York City for cable transfer in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. The translations are solely for the convenience of the reader.

(2) Including 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.

(3) Results of the Guangdong and Shanghai service regions have been disclosed as discontinued operations for the year ended December 31, 2007 and results of our CDMA business have been disclosed as discontinued operations for the years ended December 31, 2007 and 2008.

(4) See Note 35 to the financial statements included in this Form 20-F on how basic and diluted earnings per share are calculated under IFRS/HKFRS.

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

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 and vice versa at RMB6.8225 = US\$1.00 and HK\$7.7499 = US\$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. 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.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8360 = US\$1.00 and HK\$7.7500 = US\$1.00, respectively, on June 19, 2009. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate

	RMB per US\$1.00		HK\$ per US\$1.00	
	High	Low	High	Low
December 2008	6.8842	6.8225	7.7522	7.7497
January 2009	6.8403	6.8225	7.7618	7.7504
February 2009	6.8470	6.8241	7.7551	7.7511
March 2009	6.8438	6.8240	7.7593	7.7497
April 2009	6.8361	6.8180	7.7508	7.7495
May 2009	6.8326	6.8176	7.7526	7.7500
June 2009 (up to June 19, 2009)	6.8364	6.8264	7.7516	7.7499

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars in 2004, 2005, 2006, 2007 and 2008, calculated by averaging the noon buying rates on the last day of each month during the relevant year.

Average Noon Buying Rate

	RMB per US\$1.00	HK\$ per US\$1.00
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

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 Limited and its affiliates, or China Mobile and China Telecom Corporation Limited and its affiliates, or China Telecom. Such competition may intensify and result in slower subscriber growth, lower tariffs and higher customer acquisition costs for us, which would materially

adversely affect our financial condition, results of operations and growth prospects.

The telecommunications industry in China has been rapidly evolving. The PRC Government has implemented a number of measures to restructure, and to encourage fair and orderly competition in, the telecommunications industry. For example, in May 2008, in order to optimize the allocation of telecommunications resources in China and improve the competitive landscape, the PRC Government encouraged a wide-ranging telecommunications industry restructuring, following which 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 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. As a result of China’s accession into the World Trade Organization, or the WTO, which requires China’s gradual reduction of foreign ownership restrictions in the telecommunications industry and the gradual opening of the telecommunications market in China to foreign operators, we also expect to face competition from foreign-invested telecommunications service providers. As a consequence of operating in an increasingly competitive market, we have experienced and may continue to experience pressure on our results of operations for some or all of our telecommunications services.

Competition in Mobile Business. China Mobile is the largest mobile operator in China and has competitive advantages over us in areas such as customer base, financial resources and brand recognition. We have been experiencing intense competition from China Mobile in our mobile service areas and this competition may continue to intensify. In addition, as part of the restructuring of the PRC telecommunications industry in 2008, we and our parent company, Unicom Group, sold the CDMA business and network, respectively, to China Telecom in October 2008. As a result, China Telecom has become the only operator offering CDMA services in China and a new competitor in the area of mobile telecommunications. In addition, China Telecom has taken over all of our previous CDMA subscribers along with the CDMA business, which has resulted in greater competitive pressure on us. Competition in the mobile business has resulted in significant decreases in our various effective tariffs and this trend may further intensify. Continued price competition among China Mobile, China Telecom, possible new telecommunications operators and us may accelerate the decline of the average revenue per user per month, or ARPU, of our mobile services, and adversely affect our profitability. In addition, competition may also result in a higher churn rate of our mobile customers and may cause a significant increase in our costs for retaining existing customers and attracting new customers of our mobile services.

Moreover, in January 2009, China Mobile, China Telecom and Unicom Group were granted licenses by the MIIT to operate 3G businesses nationwide in China with TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. China Mobile and China Telecom have launched their 3G businesses in China and we have launched our 3G business on a trial basis. We expect that 3G will be one of the main focuses of business development for the three telecommunications operators in China and that our 3G business will face intense competition from China Mobile and China Telecom in the future. Because the TD-SCDMA technology that China Mobile uses to operate its 3G business is China’s homegrown technology and one of the three current major international 3G standards, the PRC Government has expressed its strong support for the TD-SCDMA industry and has announced numerous policies to promote its development in China. Moreover, due to the technical features of the CDMA network, China Telecom, unlike other Chinese telecommunications operators, was able to upgrade its CDMA network easily and quickly to the CDMA2000 3G network, which allowed China Telecom to launch its 3G business earlier than us. All of these factors may harm our 3G competitive position. The WCDMA technology that we use to operate our 3G business is a relatively mature technology which has been widely adopted and deployed around the world. Our 3G operations based on the WCDMA technology have also benefited from a well-developed WCDMA industry chain with diverse and ample supplies of WCDMA network equipment and facilities as well as handsets and applications. While we have been endeavoring to capitalize these advantages of the WCDMA technology and allocating significant resources to develop our networks, service products and customer service for our 3G business, we cannot assure you that we will be able to successfully compete in the emerging 3G service market in China. As a result, our financial condition, results of operations and growth prospects may be materially adversely affected.

Competition in Fixed-Line Business. As a part of the PRC telecommunications industry restructuring in 2008, the former China Netcom, which was a major fixed-line service provider in China prior to the restructuring, merged with us and became our wholly-owned subsidiary in October 2008. China Network Communications Group

Corporation, or Netcom Group, China Netcom's parent company, and China Netcom (Group) Company Limited, or CNC China, China Netcom's wholly-owned subsidiary, also merged with, and were absorbed by, Unicom Group and China United Network Communications Corporation Limited (formerly known as China Unicom Corporation Limited), or CUCL, our principal operating subsidiary, respectively, in January 2009. See "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" under Item 4. Moreover, in order to become a nationwide full-service telecommunications operator in all of our business lines, we, through CUCL, purchased the telecommunications business across 21 provinces in southern China held by Unicom Group and Netcom Group. See "A. History and Development of the Company — Recent Developments" under Item 4. As a result, we are now offering fixed-line services, including fixed-line voice and value-added, fixed-line broadband, data communication and other services, nationwide in China. Our major competitors in various fixed-line service markets include China Telecom, a major fixed-line service provider in China with a leading position in the south, and China Mobile, which began offering fixed-line services after its acquisition of China TieTong Telecommunications Corporation, a relatively smaller operator in the fixed-line service market. Geographically, we are a leading fixed-line service provider in our fixed-line northern service region, but a relatively new entrant in 21 provinces in southern China. In our fixed-line northern service region, we face increasing competition from China Telecom and China Mobile as they continue to develop their fixed-line networks and boost their sales efforts in the region. In 21 provinces in southern China, we are selectively developing networks and increasing sales as our strategy, but we cannot assure you that this strategy will enable us to compete successfully against our competitors in the fixed-line market in this region. Moreover, other than China Telecom and China Mobile, we also face increasing competition from other competitors in a number of areas of fixed-line business. For example, in the long distance area, we have been experiencing competitive pressure from Internet phone service providers, such as Skype. This competition may become more intense if current restrictions on the provision of these services are liberalized. In the fixed-line broadband area, cable television companies, such as Beijing Gehua CATV Netcom Co., Ltd., and other emerging fixed-line broadband companies, such as Great Wall Broadband Network Service Co., Ltd., have imposed significant competition pressure on us in pricing, network coverage and quality, end-to-end connectivity and customer service. In addition, we expect that the convergence of telecommunications, Internet and cable television networks will be the trend for the future development of the telecommunications industry in China. Changes of regulatory policies under this trend may enable additional non-telecommunications operators to compete with us in our telecommunications businesses, in particular in our fixed-line business. Increased competition from China Telecom, China Mobile and other competitors in the fixed-line service market may force us to lower our tariffs and may reduce the size of our customer base and the usage of our fixed-line networks, which may materially adversely affect our financial condition, results of operations and growth prospects.

Furthermore, the MIIT's newly issued the Measures on the Administration of Telecommunications Business Licenses, which became effective on April 10, 2009, among other things, lowered the minimum amount of registered capital required for an applicant to enter the basic telecommunications business in the PRC. We expect this change to lower the entry barriers to the telecommunications industry and further intensify competition in the relevant service areas.

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 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.

We continue to lose fixed-line 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. In 2007 and 2008, mobile substitution accelerated as a result of stronger pricing pressure from mobile operators, which increasingly reduced tariffs through various discount programs. For example, the usage volume of local calls in our fixed-line northern service region decreased by 7.2% from 202.5 billion pulses in 2007 to 187.8 billion pulses in 2008, mainly due to migration of local voice traffic to mobile services. The number of our fixed-line subscribers also decreased by 9.6% from 110.82 million at the end of 2007 to 100.15 million at the end of 2008. While we started providing a full range of telecommunications services after the telecommunications industry restructuring in 2008 and 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. Migration from fixed-line services to mobile services may further intensify in the future, which may materially adversely affect our financial condition, results of operations and growth prospects of our fixed-line voice services. In addition, as the 3G industry continues to develop in China, we expect that wireless Internet access will become another main form of broadband access in the future, which may result in decreased use of fixed-line broadband access, thereby resulting in loss of our fixed-line broadband subscribers.

With respect to our GSM mobile services, we also experienced an increased loss of some existing mobile subscribers, although this loss was substantially exceeded by an increase in new mobile subscribers in 2008. Our loss of existing mobile subscribers is reflected in the increased churn rates of our mobile services in 2008. The monthly average churn rate of our GSM mobile services increased from 2.76% in 2007 to 3.08% in 2008, primarily due to further intensified competition from other service providers, a large proportion of our new subscribers being low-end subscribers and the effects of the global financial crisis. Increased churn rates of our GSM services may adversely affect our market share and increase our costs of additional customer acquisitions and bad debts, which would materially adversely affect our financial condition, results of operations and growth prospects.

In addition, due to an increased loss of customers and the effects of the global financial crisis, our doubtful debt ratio, calculated as the amount of doubtful debt provided during a year divided by revenue in that year, also increased in 2008. Our doubtful debt ratio related to our GSM services was at 2.1% in 2008, compared to 2.0% in 2007. Our doubtful debt ratio related to our fixed-line services was at 1.8% in 2008, compared to 1.1% in 2007. If these ratios increase in the future, our financial condition and results of operations could be materially adversely affected.

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 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 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.

Various difficulties involved and extensive efforts required in the ongoing integration process following our merger with China Netcom may adversely affect our financial condition, results of operations and growth prospects.

Following our merger with China Netcom, we have been integrating the operations of the two companies. Our management has been making extensive efforts in the integration process, in particular the integration of the existing businesses, development strategies, management and personnel, subsidiaries and branches, accounting policies and procedures, internal control systems and information systems of the two companies. As the integration is ongoing, and due to various potential difficulties in managing a much larger business, our management expects that further efforts will be required in the continuing integration process, which may result in a significant diversion of our management's attention from the operation of our businesses and may significantly restrain our management's resources, thereby adversely affecting our financial condition, results of operations and growth prospects. In addition, an important aspect of the integration is the integration of personnel. We believe that we have maintained good labor

relations and have not experienced any significant loss of our employees since our merger with China Netcom. However, as the integration process deepens, we cannot assure you that we will be able to maintain existing labor relations or that we will not suffer from employee attrition, and our financial condition, operation of businesses and growth prospects may be materially adversely affected as a result.

We may not be able to fully realize the anticipated synergies of our merger with China Netcom as well as our acquisition of the fixed-line business in 21 provinces in southern China due to a number of factors, some of which are beyond our control, and our future financial condition, results of operations and growth prospects may be materially adversely affected.

We believe that our merger with China Netcom represents an important transaction for us, consistent with the industry trend of convergence between fixed-line and mobile businesses within China. It allows us to benefit from increased economies of scale, reinforce our market position, improve our overall competitiveness and lay the foundation for sustainable long-term growth. We anticipate that through effective integration, synergies would occur in six key areas, including through: (i) a clear strategic positioning of our enlarged group; (ii) an improvement of the market position of our enlarged group; (iii) a combination of resources and strengths to achieve economies of scale and larger scope; (iv) technological and product innovation to address changing market trends; (v) enhanced human capital and organizational structure; and (vi) a more optimal capital structure and enhanced financial capabilities.

Nevertheless, the scale, scope and nature of the integration and customer retention efforts required in connection with the merger present significant challenges. Although we have completed integration in a number of areas on a preliminary basis, we cannot assure you that we will be able to fully integrate our businesses on the expected timeline and fully realize the anticipated synergies as a result of numerous factors, some of which are beyond our control. These factors include, among other things:

- difficulties in integrating the operations of the two companies, including unifying their operating and accounting policies and procedures as well as their information systems, streamlining overlapping operations, consolidating subsidiaries and branch networks, and allocating human resources;
- unforeseen contingent risks or latent liabilities relating to the merger that may not become apparent until in the future;
- loss of personnel, including key management members;
- increase in competition in the PRC telecommunications industry resulting from the recent restructuring of the PRC telecommunications industry, which, among other things, may require us to increase our marketing efforts;
- the diversion of financial or other resources from our existing businesses; and
- potential loss of, or harm to, relationships with customers.

Any of the above could adversely impact the full realization of our anticipated synergies from the merger with China Netcom and could materially adversely affect our future business performance, results of operations and financial condition.

In addition, following the completion of our acquisition of the fixed-line business in 21 provinces in southern China, we have been integrating our existing business with the fixed-line operations in those 21 provinces in southern China. We cannot assure you that we will be able to implement the integration process smoothly or that this acquisition will meet our expectation to optimize our business and resources and enhance our overall competitive position.

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 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;
- 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 and introduction of our 3G network and services is subject to market demand, consumer acceptance, technological challenges, other uncertainties, expected benefits from investments in our 3G networks and technology may not be realized and our GSM mobile business may be adversely affected due to the competitive nature between 3G services and 2G services in the industry.

In January 2009, Unicom Group was granted a license by the MIIT to operate a 3G business nationwide in China with WCDMA technology and, with the approval of the MIIT, has authorized CUCL, our wholly-owned subsidiary, to operate this 3G business. Our planned capital expenditure in 2009 for the development of our 3G business is estimated to be approximately RMB38.7 billion. We currently expect to provide 3G services in 284 cities in China by the end of 2009. 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 construction;
- there will be sufficient demand for 3G services for us to deliver these services profitably;
- the commercial launch of our 3G services will proceed according to anticipated schedules;
- our 3G network and services will deliver the quality and levels of services as expected;
- we will be able to provide all planned 3G services or that we will be able to provide such services on schedule, or that developing and providing such services will not be more costly than expected;
- 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 the completion of networks and the launch of our 3G services, increases in the associated costs, or problems 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. In addition, we expect that 3G services will compete with 2G services as an industry trend in the future. Therefore, while we are promoting our 3G business, we cannot assure you that our GSM business will not be adversely affected by the industry-wide competition between 3G and 2G businesses.

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 telecommunication 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.

Interruptions to our networks and operating systems or to those with which we interconnect, including those caused by natural disasters 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 January and February of 2008, certain areas of China experienced what was reportedly the most severe winter weather in the country in half a century. Our base stations in the affected areas suffered from power failures and our network equipment sustained other damage due to this severe winter weather. In addition, in May 2008, an earthquake registering 8.0 on the Richter scale struck Sichuan Province and its neighboring areas in China. 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 fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected.

Upon the completion of our merger with China Netcom, we took over China Netcom's PHS services, which we did not operate before the merger. PHS is a telecommunications technology that allows an operator to offer wireless local access services with mobility within an area with the same area code. PHS business historically contributed substantially to our revenues and customer base, but has experienced dramatic declines in recent years since its tariff advantage has been diminishing as a result of intense competition in the mobile service market in China. As of December 31, 2008, we had a total of 21.85 million PHS subscribers. Further, in January 2009, the MIIT announced its decision to reallocate the radio spectrum on which we currently provide our PHS services to the TD-SCDMA technology which China Mobile uses to provide its 3G services. The MIIT requested that current wireless access systems operating on 1900-1920 MHz spectrum be cleared and removed by the end of 2011. We expect that we will experience a significant decline in revenue and profitability for our PHS business in 2009 and onwards. Our PHS business would deteriorate significantly and discontinuing the PHS services may result in a substantial loss of our investment in this area. As a result, we recognized an impairment loss on the PHS-related assets of approximately RMB11.8 billion for the year ended December 31, 2008, leaving the carrying value of PHS-related assets of approximately RMB1.52 billion as of December 31, 2008.

We intend to utilize our full-service operations platform to provide substitute telecommunications services to our existing PHS users. However, we cannot assure you that we will be able to achieve a smooth discontinuation of PHS services or effectively retain our PHS subscribers to use our other telecommunications services. As a result, our financial condition and results of operations may be adversely affected.

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 RMB110.0 billion for capital expenditure in 2009, an increase of RMB39.5 billion from 2008. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Although currently we have a relatively low leverage in our capital structure (14.5% debt-to-equity ratio and 12.7% debt-to-capitalization ratio as of December 31, 2008), we cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms, given the current conditions in the global financing markets, especially those outside the PRC, as a result of the current financial crisis. 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;
- the condition 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.

We have been experiencing declining ARPU for our mobile business and fixed-lined business in recent years, mainly due to (i) our decreasing effective tariffs, which mainly resulted from pricing competition with other telecommunications operators in China and downward adjustments on tariffs by the PRC Government (which may continue in the future); and (ii) the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services (mobile services, in particular) and are more cost-sensitive than users from urban areas. In addition, the spread of the global financial crisis has negatively affected the Chinese economy. Despite the PRC Government's efforts in stimulating the economy, we cannot assure you that our businesses will not be significantly negatively impacted by current economic conditions. As a result of the above, our ARPU may continue to decline 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.

If the economy of China deteriorates under the current global financial crisis, our financial condition, results of operations and growth prospects may be materially adversely affected.

The current global financial crisis has swept the global economy and affected a number of countries, including China, to different extents. In response to this global financial crisis, the PRC Government has adopted a series of measures to stimulate the economy, including making significant investments in domestic infrastructure construction. While such measures may help create a positive policy environment for the economy in China, in the event that the economy growth of China significantly declines in the future, our subscribers' usage of our services may decrease, our loss of subscribers may accelerate and we may experience increased difficulties in acquiring new subscribers. Furthermore, although the financial crisis has affected the financial industry in China to a lesser extent than that in certain other countries, if the Chinese financial industry becomes further adversely affected, our ability to obtain financing may be significantly constrained. All of these factors may materially adversely affect our financial condition, results of operations and growth prospects.

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 70.40% of our issued share capital as of May 31, 2009 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 Our Company — Recent Developments" 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 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, 2008, 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, 2008 was effective. PricewaterhouseCoopers, an independent registered public accounting firm, expressed unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2008. 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.

The PRC National Audit Office and other governmental or third parties may audit or investigate our ultimate controlling shareholder and us from time to time. The outcome of these governmental or third-party investigations may materially adversely affect our corporate image, the reputation and credibility of our management, our business and financial condition and the prices of our shares and ADSs.

The PRC National Audit Office, or the NAO, from time to time performs audits on state-owned companies, such as Unicom Group, our ultimate controlling shareholder. If, as a result of an NAO audit, material irregularities are found within Unicom Group or if Unicom Group becomes the target of any negative publicity, there could be a material adverse effect on our corporate image, the reputation and credibility of our management, our business and financial condition and the market prices of our shares and ADSs. In addition, we may be the subject of other

governmental or third-party investigations or similar events that, depending on their outcome, could have a material adverse effect on our business and financial condition and the market prices of our shares and ADSs.

Risks Relating to the Telecommunications Industry in China

Extensive government regulation of the telecommunications industry in China may restrict 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 extensive 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, as approved by the State Council in 2001, the PRC Government stated its intention to further adjust and improve its regulatory oversight of the telecommunications industry, including gradual further deregulation of 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. The proposed nature and scope of the telecommunications law have not yet been 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.

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. We have experienced significant downward adjustments on tariffs of telecommunications services in recent years and our revenues have been adversely affected by reductions in tariffs promulgated by the PRC Government, such as the “Calling-Party-Pays” policy the MIIT promoted in the first half of 2007 and the reduction of charges for roaming services mandated by the MIIT and the National Development and Reform Commission of the PRC, or the NDRC, in February 2008.

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. Revenues from some of our customers have decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenues will be adversely affected if the PRC Government abolishes such monthly fees. In addition, the PRC Government may initiate new policies or regulations following the industry restructuring in 2008, such as those in connection with adjustments in interconnection settlement arrangement among telecommunications operators and those that allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers. The potential new regulatory policies and regulations may materially adversely affect our financial condition, results of operations and growth prospects.

The telecommunications industry in China may not sustain its pace of rapid growth, which may adversely affect the growth and profitability of our business.

The telecommunications industry in China has experienced rapid growth in the last several years, especially in the mobile communications sector. The total number of mobile subscribers in China increased from 43.3 million at the end of 1999 to 678.8 million in April 2009. Mobile service penetration increased from 3.5% to over 50.7% nationwide during the same period. The growth in mobile subscribers has been slowing down as mobile penetration continues to increase in our mobile service areas. In addition, ARPU for the mobile communications market in China continues to decline. For example, ARPU of our GSM mobile subscribers declined from RMB45.7 in 2007 to RMB42.3 in 2008. Any slowdown in the growth in China’s telecommunications industry, in particular, mobile communications sector and fixed-line broadband sector, may adversely affect the growth and profitability of our business.

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 telecommunication 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, those 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 revenues are 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, 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.

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 and interest on foreign loans. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and principal 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. This status allows it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration for Foreign Exchange of the PRC, or the SAFE. 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.

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 revenues 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 of pegging the value of Renminbi to that of the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies determined by the People's Bank of China. As of December 31, 2008, the Renminbi has appreciated approximately 17.57% in value against the U.S. dollar since July 21, 2005. On May 19, 2007, the People's Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. 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, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar or other foreign currencies in the future. 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 substantial costs and diversion of resources and management attention. Therefore, the PRC legal system may not afford the same 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.

New provisions of the PRC Employment Contract Law may substantially increase our labor-related costs in the future.

A new labor contract law in China, which we refer to as the Employment Contract Law, became effective on January 1, 2008. The Employment Contract Law contains a number of provisions that are more favorable to employees than the prior labor laws and regulations in China. For example, an employee may terminate the employment contract without notice if his or her employer fails to pay regulatory social insurance contributions for the employee, or the employer has a workplace policy that violates PRC law and causes harm to the employee. In such case, the employee is entitled to compensation by the employer in an amount equal to his or her average monthly salary for the prior twelve months times the number of years the employee has served the employer. An employer is also obligated to compensate an employee if the employer decides not to renew an existing employment contract, unless the employee refuses the employer's offer to renew the expiring employment contract with the same or better terms. In addition, an employer is obligated to provide an open-ended employment contract after an employee has completed two consecutive terms of fixed-term employment, under which the employer will be liable to pay damages to an employee if the employer terminates the employment without cause, until the employee reaches an age at which he or she is eligible for pension payment. As a result of the implementation of the new Employment Contract Law, we may have greater difficulty terminating underperforming employees and may incur higher levels of labor costs in order to comply with the provisions of the new law, which may adversely affect our business, financial condition and operating results.

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, in the past. In April 2009, H1N1/swine flu was discovered in North America and has quickly spread to a number of countries. Although China has not been reported to be widely affected by the H1N1/swine flu as of the date of this annual report on Form 20-F, we cannot predict the effect, if any, that the H1N1/swine flu may have on our business. 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 service, 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).

Restructurings of 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 revenues 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.

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. 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 the PRC.

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.

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 the PRC. 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 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. 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 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.

Unicom Vsens Telecommunications Company Limited

On August 19, 2008, CUCL established a wholly-owned subsidiary, Unicom Huakai Telecommunications Company Limited, 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.

China Unicom Mobile Network Company Limited

On December 31, 2008, CUCL established a wholly-owned subsidiary, China Unicom Mobile Network Company Limited, as a limited liability company under the laws of the PRC. Unicom Mobile Network is principally engaged in construction and maintenance of our networks. The paid-in capital of Unicom Mobile Network is RMB500 million.

Recent Developments

3G License

Subsequent to the telecommunications industry restructuring in 2008, the MIIT granted 3G licenses in January 2009 to China Mobile, China Telecom and Unicom Group to operate 3G businesses nationwide in China with TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. Unicom Group, with the approval of the MIIT, has authorized CUCL to operate Unicom Group's 3G business. We launched our 3G operations on a trial basis in 55 cities in May 2009 and expect to expand our 3G operations to approximately 284 cities in China by the end of 2009.

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 Unicom New Guoxin Telecommunications Corporation Limited, 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 RMB6.43 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 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 lease became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China. This lease is for an initial term of two years effective from January 2009 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, taking into account, among other things, the prevailing market conditions in southern China. The annual lease fee payable by CUCL for the years ending December 31, 2009 and 2010 is RMB2.0 billion and RMB2.2 billion, respectively. In connection with the lease, 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 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. See "B. Related Party Transactions — 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 7.

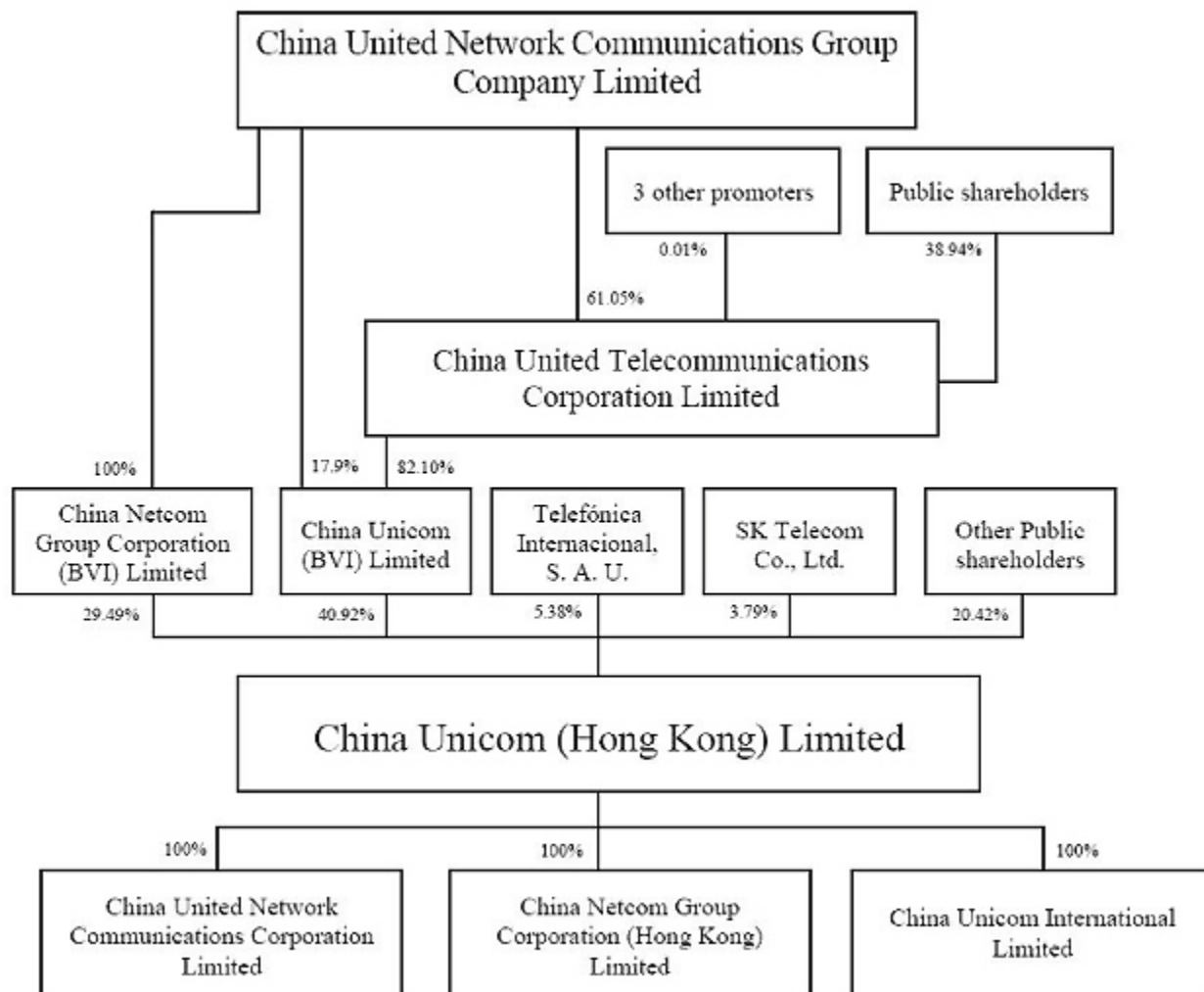
Our Relationship with Unicom Group

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 include arrangements for interconnection services between the telecommunications networks owned by us and Unicom Group and for the provision or sharing of telecommunications and ancillary services and facilities between us and Unicom Group. Unicom Group also retains its interests in its other subsidiaries that provide ancillary services to us, including the procurement of telecommunications equipment and the supply of SIM cards and calling cards. Our existing agreements with Unicom Group were entered into in August 2008. In addition, in connection with our merger with China Netcom, CUCL and Netcom Group entered into various framework agreements in August 2008 to record the principles governing, and the principal terms of, various arrangements including interconnection services and the provision and sharing of telecommunications and ancillary services and facilities between us and Netcom Group (whose rights and obligations under such framework agreements have been assumed by Unicom Group, which merged with, and absorbed, Netcom Group in January 2009). Furthermore, as a result of the merger between Unicom Group and Netcom Group, Unicom Group assumed all rights and obligations under certain existing agreements entered into between CNC China (which merged with, and was absorbed by, CUCL in January 2009) and Netcom Group relating to various arrangements, including interconnection services, settlements and the provisions and sharing of telecommunications and ancillary services and facilities between CNC China and Netcom Group. 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 subsidiaries as of May 31, 2009.



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
- 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 2009. We currently do not have any significant divestiture in progress.

B. Business Overview

General

As a result of our merger with China Netcom in October 2008, we have become 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 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 Telecommunications Industry.”

Mobile Business

GSM Mobile Business

Following the disposal of our CDMA business to China Telecom in October 2008, we have been focusing on our mobile services using the Global System for Mobile Communications, or GSM, standard. Our GSM mobile business revenue, subscribers and usage maintained steady growth in 2008. We had a total of 133.37 million GSM mobile subscribers as of December 31, 2008, representing a 10.6% increase from 120.56 million as of

December 31, 2007. Revenue of our GSM mobile business increased by 4.3% from RMB62.56 billion in 2007 to RMB65.25 billion in 2008, and accounted for 41.5% and 43.8% of our total revenues from continuing operations in 2007 and 2008, respectively. At the end of 2008, our market share in terms of the number of subscribers in our mobile service areas was 20.8%, a decrease from 22.0% at the end of 2007.

Our GSM mobile networks reach all cities, county centers, major towns, major highways and railways in our mobile service areas. After the acquisition of Unicom Guizhou on December 31, 2007, our mobile service area encompassed all 31 provinces, autonomous regions and municipalities in China. In 2008, we continued to focus on expanding the coverage of our general packet radio service, or GPRS. By the end of 2008, our GPRS services covered all 31 provinces, autonomous regions and municipalities in China. In 2008, we also continued to improve our GPRS network in 55 major cities in China and improved the GPRS connection quality in those cities.

Our major brands for our GSM mobile services include “Worldwind”, “U-Power” and “Ruyi Tong.” “Worldwind” is a GSM service package with featured phone numbers to target mid- to high-end customers. “U-Power” provides diverse value-added services targeting young customers and “Ruyi Tong” focuses on mass market to provide basic mobile functions under flexible packages. In 2008, we actively developed incremental subscriber market, retained the existing subscriber market and improved customer service with a focus on those three major brands.

Mobile Voice Business

Our mobile voice services enable 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 mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2008, our voice business continued to grow and our total voice usage volume increased by 10.3% from 2007 to 376.673 million minutes in 2008. Revenue from our monthly fees and usage fees of our mobile voice services decreased by 3.8% from RMB42.08 billion in 2007 to RMB40.46 billion in 2008, and accounted for 27.9% and 27.2% of total revenue from our continuing operations in 2007 and 2008, 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,		
	2006 ⁽⁴⁾	2007 ⁽⁴⁾	2008
Number of subscribers (in thousands)	106,937	120,564	133,365
Estimated market share in our service areas ⁽¹⁾	23.2%	22.0%	20.8%
Average minutes of usage per subscriber per month (MOU) ⁽²⁾	237.8	249.7	246.4
Average revenue per subscriber per month (ARPU) (in RMB) ⁽³⁾	49.2	45.7	42.3
SMS volume (in billions)	59.26	72.94	76.33

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

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

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

(4) Includes Unicom Guizhou, which merged into CUCL on December 31, 2007.

Subscriber Increase. Our total number of GSM mobile subscribers increased by 10.6% from 120.56 million as of December 31, 2007 to 133.37 million as of December 31, 2008. We believe that this growth was attributable to a number of factors, including, among others, the continued growth of the Chinese mobile telecommunications market, driven by economic growth and reduction in the cost of mobile handsets and services, and our sales and marketing efforts in retaining existing subscribers and expanding our subscriber base. The increase of our GSM mobile subscribers, together with the decreasing effective tariffs, also resulted in an increase of the total voice usage of our GSM mobile services by 10.3% from 341 billion minutes in 2007 to 377 billion minutes in 2008.

MOU and ARPU. MOU decreased by 1.3% from 249.7 minutes in 2007 to 246.4 minutes in 2008, and ARPU decreased by 7.4% from RMB45.7 in 2007 to RMB42.3 in 2008. The decrease in our MOU is mainly attributed to the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services than users from urban areas. The decrease in ARPU was primarily attributable to (i) our generally decreased effective tariffs, which were caused by the further intensified competition among the telecommunications operators in China and downward adjustments on tariffs by the PRC Government and (ii) 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.

Churn Rate. The monthly average churn rate for our mobile voice services increased from 2.76% in 2007 to 3.08% in 2008, primarily as a result of intensified competition, a large proportion of our new subscribers being low-end subscribers and the effects of the global financial crisis. Our calculation of churn rate reflects those subscribers who switch to services of other operators and those whose services we terminate as a result of account inactivity or payment delinquency.

Payment Delinquency. Payment delinquency increased in 2008. As of December 31, 2008, the doubtful debt ratio for our mobile voice services, calculated as the amount of doubtful debt provided in 2008 divided by revenue from GSM mobile services, was 2.1%, compared to 2.0% at the end of 2007, which is in line with the increased churn rate.

Tariffs. 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.

The 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 telecommunications administrations and price bureaus. The following table summarizes the present tariff rates for post-paid and pre-paid mobile services:

	<u>Post-paid Services</u>	<u>Pre-paid Services</u>
	RMB	RMB
Basic monthly fee	45-50	0
Local usage charge (per minute)	0.36-0.40	0.54-0.60
Domestic roaming charge (per minute)	0.6 for caller 0.4 for receiver	0.6 for caller 0.4 for receiver

Source: MIIT.

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.

In 2007, the former Ministry of Information Industry started implementing “Calling-Party-Pays” billing arrangements. In February 2008, the former Ministry of Information Industry and the NDRC jointly promulgated the Notice in Relation to Reduction of Tariff Cap for Domestic Mobile Roaming Services, or the Tariff Notice, to require, among other things, equalizing domestic roaming charges with charges for long distance calls made during domestic roaming, equalizing roaming charges for pre-paid mobile subscribers with those for post-paid mobile subscribers and setting different tariff caps for callers and receivers in the context of domestic roaming.

Mobile Value-Added Services

By leveraging our integrated telecommunications operations and advanced network system, we offer a broad range of mobile value-added services nationwide, including SMS, personalized ring-back tone services, wireless Internet services and other wireless information services. Our value-added services continued to grow and the contribution to our revenue from mobile services continued to increase in 2008. In 2008, revenue from our mobile value-added services increased by 20.2% from RMB13.53 billion in 2007 to RMB16.26 billion in 2008, and as a percentage of total mobile revenue reached 24.9%, representing an increase of 3.3 percentage points from 2007. Revenue from our mobile value-added services accounted for 9.0% and 10.9% of total revenue from our continuing operations in 2007 and 2008, respectively.

The volume of our SMSs continued to increase in 2008. A total of 76.33 billion SMSs were transmitted by our mobile subscribers in 2008, representing an increase of 4.6% compared to 2007. The revenue from SMSs in 2008 represents 40.0% of our revenue from value-added services in 2008.

We market our mobile personalized ring-back tone service under the brand name “Cool Ringtone.” As a mature service, Cool Ringtone service has maintained a high growth rate since its introduction. As of December 31, 2008, we had a total number of 44.13 million subscribers to our Cool Ringtone service, representing 33.1% of the number of our total mobile subscribers as of December 31, 2008.

In addition, we also focused on developing GPRS value-added services, which are a new contributing factors to our revenue from value-added services and include WAP, JAVA and point-to-point multimedia message services. As of the end of 2008, we achieved a nationwide coverage of our GPRS network in all 31 provinces, autonomous regions and municipalities and had also enriched the offerings of GPRS applications. For example, in 2008, we rolled out applications such as the SMS version, real-time quote version and trading version of “Stock Market in Palm” services. As of the end of 2008, we had active GPRS international inbound roaming services with 133 operators from 69 countries and had active GPRS international outbound roaming services with 46 operators from 27 countries. As of December 31, 2008, our total number of GPRS subscribers reached 31.22 million, representing a net increase of 22.33 million in 2008, an increase of 251.1% from 2007, and the penetration rate increased from 7.4% in 2007 to 23.4% in 2008.

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 May 2009 under the brand “WO” and expect to expand the 3G operations to approximately 284 cities in China by the end of 2009.

Fixed-Line Business

We are a leading fixed-line broadband and communications operator in 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 fixed-line voice and value-added, fixed-line broadband, data communications and other services.

The fixed-line services that we offer include:

- fixed-line voice services (including PHS services), including local, domestic long distance and international long distance services;
- fixed-line value-added services;
- fixed-line broadband services, including XDSL, LAN, broadband content and applications services; and
- data communications services, including managed data, leased line services and ICT services.

In 2008, with decreased effective tariffs, downward adjustments of mobile roaming tariffs and the further implementation of the mobile “Calling-Party-Pays” policy, the mobile substitution of fixed-line business intensified. In addition, our internal reorganization, the macroeconomic downturn and fixed-line inter-regional tariff downward adjustments have all negatively impacted the fixed-line business. By accelerating our implementation of an upgrade of our fixed-line broadband network with increased access speed, developing content and application services and promoting multi-service bundling and voice service packages, we achieved continued growth in 2008 in fixed-line broadband and data communications business, which partially mitigated the decline in the fixed-line voice business.

Revenue from our fixed-line business decreased by 5.1% from RMB88.13 billion in 2007 to RMB83.65 billion in 2008. Revenue from our fixed-line business accounted for 58.5% and 56.2% of our total revenue from continuing operations in 2007 and 2008, respectively.

Tariffs for some of our services are regulated by the PRC Government, including the MIIT, the NDRC, and provincial telecommunications administrations and price bureaus in China. For a discussion of government-fixed tariffs and guidance tariffs, such as those for fixed-line telephone services, see “—Regulatory and Related Matters — Tariff Setting and Price Controls” below. Prices for some of our services may be subject to promotional discounts.

Fixed-Line Voice Business

We are a leading provider of fixed-line telephone services in our fixed-line northern service region, with a market share of 89.1% as of December 31, 2008, based on the number of fixed-line subscribers.

Our fixed-line voice services consist of local telephone, 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 mobile “Calling-Party-Pays” policy was further implemented, the migration from fixed-line to mobile communications has further accelerated. The number of our fixed-line subscribers (including PHS subscribers) decreased by 9.6% from 110.82 million at the end of 2007 to 100.15 million at the end of 2008. Of the total number of fixed-line subscribers, as of December 31, 2008, approximately 61.2% were residential customers, 10.6% were business customers, 6.4% were public telephones and 21.8% were PHS subscribers. In 2008, revenue from usage fees and monthly fees from our fixed-line voice business decreased by 15.6% from RMB44.23 billion in 2007 to RMB37.32 billion in 2008 and accounted for 29.3% and 25.1% of our total revenue from continuing operations in 2007 and 2008, respectively.

In 2008, we continued to promote “Family1+” bundled services as our leading service package for family subscribers by increasing the brand recognition of “Family1+”, enriching the content of services under the “Family1+” brand and offering various services to satisfy family customers’ multimedia needs. By bundling broadband with value-added services, offering competitive prices and selecting different services based on different customer needs, we have mitigated the decline of our fixed-line telephone voice businesses. In 2008, as a full-service telecommunications operator, we promoted fixed-line packages bundled with our GSM mobile voice services. We believe that, with the increasing penetration rate of “Family1+” and the increased ability of “Family1+” to satisfy the multimedia needs for our family subscribers, we could further enhance revenue contribution by our fixed-line voice customers.

We have in the past selectively built wireless local access networks based on PHS technology to offer PHS services as a supplement to our fixed-line services. Our PHS services have been introduced in most cities in our fixed-line northern service region, where we have rolled out our PHS networks as an extension to our existing fixed-line networks. PHS services are wireless telephone services that have certain features similar to mobile

telephone services. Compared to mobile telephone services, PHS services are subject to various limitations. For example, PHS services have smaller mobile coverage and do not permit nationwide or international roaming. However, due to their lower tariffs compared to mobile services, PHS services were previously quite popular among subscribers and contributed significantly to our revenues.

Beginning in 2006, as mobile operators continued to launch more aggressive tariff packages, the tariff advantage of PHS services diminished, and our PHS subscribers as of December 31, 2008 decreased to 21.85 million from approximately 26.19 million as of December 31, 2007. In January 2009, the MIIT issued the Notice on Matters Relating to Wireless Access Systems Operating on 1900-1920 MHz Spectrum, requiring the current wireless access systems operating on the 1900-1920 MHz spectrum, which is used by our PHS services, to be cleared and removed from such spectrum by the end of 2011. See “D. Risk Factors — Risks Relating to Our Businesses — If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected.” under Item 3. After considering the expected significant decline in revenue and profitability for our PHS business in 2009 and onwards, we recognized an impairment loss of RMB11.84 billion for our PHS business-related assets. In responding to this requirement, we intend to utilize our full-service operations platform to provide substitute telecommunications services to our existing PHS users.

We also operate a network of approximately 6.45 million public telephones located in our service region. We provide local, domestic long distance and international long distance call services and Internet services through our public telephones.

The following table summarizes key information regarding our local telephone services in our fixed-line northern service region as of the dates indicated:

	As of December 31,		
	2006	2007	2008
	(in thousands, except percentages)		
Number of fixed-line subscribers⁽¹⁾			
Residential	68,803	67,162	61,246
Business	10,946	10,575	10,599
PHS	27,316	26,189	21,851
Public telephones	6,907	6,894	6,450
Total	<u>113,972</u>	<u>110,820</u>	<u>100,146</u>
Market share ⁽²⁾	91.5%	90.4%	89.1%

(1) Fixed-line subscribers consist of all 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. Prepaid and postpaid telephone card customers are not counted toward our fixed-line subscribers.

(2) Calculated by dividing the number of our fixed-line subscribers by the total number of fixed-line subscribers in our fixed-line northern service region published by the provincial telecommunications administrations or the MIIT, as the case may be, as of each of December 31, 2006, 2007 and 2008, and March 31, 2009.

Local Telephone Services

Our local telephone services, which represent the largest portion of our fixed-line voice services in terms of revenues, experienced declines in 2007 and 2008. The following table sets forth information regarding usage of our local telephone services provided in our fixed-line northern service region for the periods indicated:

	For the Years Ended December 31,		
	2006	2007	2008
Total usage (pulses in millions) ⁽¹⁾	214,474	202,547	187,836
Internet dial-up usage (pulses in millions) ⁽¹⁾	5,251	3,660	2,936
Total usage excluding Internet dial-up usage (pulses in millions)	209,223	198,887	184,900

(1) Pulses are the billing units for calculating local telephone usage fees. See “B. Business Overview — Regulatory and Related Matters — Tariff Setting and Price Controls” under Item 4 for a discussion of pulses.

In 2008, total usage in local telephone services was 187,836 million pulses, which included 2,936 million pulses of Internet dial-up usage. Total usage of local telephone services excluding Internet dial-up usage decreased by 7.0% from 198,887 million pulses in 2007 to 184,900 million pulses in 2008, reflecting increasing migration of local fixed-line voice traffic to mobile services.

Domestic Long Distance Services

We offer traditional long distance services and VoIP long distance services in our northern service region. The following table shows the total minutes of domestic long distance calls carried through our long distance networks for the periods indicated:

	For the Years Ended December 31,		
	2006	2007	2008
Total minutes of domestic long distance calls (minutes in millions)⁽¹⁾			
Traditional	17,327	18,482	17,519
VoIP	11,482	10,315	8,051
Total	28,809	28,797	25,570

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

In 2008, the usage of our domestic long distance calls decreased by 3,227 million minutes, or 11.2%, from that in 2007, primarily due to the reduction of the number of fixed-line subscribers and increased competition from mobile service providers in the form of decreased roaming charges and usage fees for domestic long distance calls. In addition, as other alternative means to make long distance calls, such as software applications that allow users to make long distance calls over the Internet, became increasingly more popular in the past few years, our long distance business was also adversely affected.

Tariffs. In 2001, the PRC Government abolished regulatory controls on tariffs for VoIP long distance calls and allowed operators to set their own rates. We currently charge RMB 0.30 per minute in addition to a local usage fee for our VoIP domestic long distance services.

International Long Distance Services

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

	For the Years Ended December 31,		
	2006	2007	2008
International long distance outbound call minutes (minutes in millions)⁽¹⁾⁽²⁾			
Traditional	144	155	145
VoIP	180	189	171
Total	324	344	316

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- (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.

In 2008, the usage of our international long distance calls decreased by 28 million minutes, or 8.1%, from that in 2007, primarily due to the reduction in the number of fixed-line subscribers and the substitution of mobile services for fixed-line services. In addition, as alternative means to make long distance calls, such as software applications that allow users to make long distance calls over the Internet, became increasingly more popular in the past few years, our international long distance business was also adversely affected. The usage of our VoIP international long distance services as a percentage of the total usage of our international long distance services decreased from 55.0% as of December 31, 2007 to 54.1% as of December 31, 2008.

We offer international long distance services through international gateways that we lease from Unicom Group, and pay for the use of networks of operators in foreign jurisdictions for outgoing international calls. We negotiate bilateral settlement arrangements and rates with operators in foreign jurisdictions based on international settlement standards in the telecommunications industry.

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 revenues per fixed-line subscriber. Revenue from our fixed-line value-added services decreased by 2.5% from RMB6.76 billion in 2007 to RMB6.59 billion in 2008, and accounted for 4.5% and 4.4% of our total revenues from continuing operations in 2007 and 2008, respectively. This decrease was mainly due to the decrease in total usage of our caller identification and PHS SMS services as a result of the significant reduction of our fixed-line telephone subscribers, including PHS subscribers.

Our fixed-line value-added services include “Personalized Ring”, “Phonemate” and caller identification services. “Personalized Ring” services enable our fixed-line subscribers to personalize the ring-back tone for incoming calls. “Phonemate” is a service that provides voice messaging, speed dial and other value-added services. In 2008, we bundled “Personalized Ring”, “Phonemate” and “Telephone POS Terminal” (which enables our customers to swipe their bank cards on a telephone point of sale (POS) terminal for self-services, such as making payments, transferring funds and checking balances) services with services under “Family 1+” packages. As of December 31, 2008, the number of our “Personalized Ring” subscribers reached 29.11 million, representing an increase of approximately 3.4% from the end of 2007. The penetration rate of caller identification services amounted to 73.2%, increasing by 1.0 percentage point over that of 2007.

For small and medium-size enterprises, or SME, customers, we bundled “corporate switchboard”, corporate “Personalized Ring”, virtual fax and Internet hard disk services with “CU Connected” fixed-line broadband service. Virtual fax services allow the users to send and receive facsimiles through the Internet. We provide Internet hard disk to users so that they can store documents, emails and facsimiles online.

Tariffs. We charge RMB3.00 to RMB6.00 per month, depending on the region, for our caller identification service. We charge RMB2.00 to RMB10.00 per month for using our “Personalized Ring” and charge separately for downloading “ring tones”.

Fixed-Line Broadband Services

Fixed-line broadband services are one of our emphases as part of our strategy to focus on high growth services. This growth 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 and established brand.

In 2008, we further upgraded our broadband network, improved access speed and promoted broadband services bundled with voice or computer terminals. Our broadband subscribers increased to 25.42 million as of December 31, 2008, representing an increase of 28.6% from 19.77 million as of December 31, 2007. Our broadband ARPU declined by 6.1% from RMB69.5 in 2007 to RMB65.2 in 2008. While the number of our broadband subscribers grew significantly in 2008, we continued implementing our marketing strategy to offer integrated broadband content, applications, access and services. Revenue from our broadband services increased by 26.9% from RMB14.27 billion in 2007 to RMB18.11 billion in 2008 and accounted for 9.5% and 12.2% of our revenue from continuing operations in 2007 and 2008, respectively.

The following table sets forth selected information regarding our fixed-line broadband services.

	As of and for the Years Ended		
	December 31,		
	2006	2007	2008
Fixed-line broadband services:⁽¹⁾			
DSL subscribers (in thousands)	11,288	15,777	20,508
LAN subscribers (in thousands)	3,141	3,985	4,789
Others (in thousands)	0	6	119
Total	14,429	19,768	25,416
Market share ⁽²⁾	87.5%	80.7% ⁽³⁾	82.1%

- (1) We calculate DSL subscribers based on the number of active accounts. LAN subscribers consist of end-users and dedicated line users. We calculate LAN end-users based on the number of ports subscribed for. The number of LAN dedicated line users equals total monthly fees paid by such users divided by set average revenue per unit. The current set revenue per unit is RMB 90. We consider an account active or a service subscribed for as soon as practicable after activation of the applicable service. We remove a subscriber from the total number of subscribers as soon as practicable after that subscriber deactivates the service voluntarily or three months after the date on which that subscriber's bill becomes overdue.
- (2) Calculated by dividing the number of our own broadband subscribers by the total number of broadband subscribers in our fixed-line northern service region, as published by the provincial telecommunications administrations or the MIIT, as the case may be, as of each of December 31, 2006, 2007 and 2008, and March 31, 2009.
- (3) Our market share of 2007 was adjusted to reflect a restated number of fixed-line broadband users in 2007 published by the MIIT.

DSL Services. We promote DSL services as the primary broadband service means for residential customers and small and medium-sized enterprise customers in our service regions, especially our northern service regions. We provide DSL services by upgrading our existing copper-based local switching network. DSL technology allows us to roll out our broadband networks at lower incremental costs than other types of broadband networks. In our fixed-line northern service region, the number of subscribers to our DSL services has grown steadily in recent years, with approximately 20.51 million DSL subscribers as of December 31, 2008, compared with approximately 15.78 million DSL subscribers as of the end of 2007. As of December 31, 2008, our DSL subscribers accounted for 80.7% of our total number of broadband subscribers in our fixed-line northern service region.

LAN Services. In addition to DSL technology, we also use Ethernet technology-based local-area networks, or LANs, to provide our customers with broadband services, especially in our southern service regions. LANs use fiber-optic technology and Ethernet protocol to connect our users to a telecommunications network and greatly expand capacity of the access network. As of December 31, 2008, we had 4.79 million subscribers of our LAN services, representing 18.8% of our total broadband subscribers.

Tariffs. We charge an upfront installation fee to both DSL and LAN subscribers. Both DSL subscribers and LAN subscribers may choose monthly packages for unlimited usage, or monthly packages with limited usage, with additional fees charged for overtime usage.

Broadband Content and Applications Services

In 2008, we increased our promotional efforts for broadband contents and applications, including "CU Max," which is a family-oriented software for broadband services with comprehensive Internet browsing functionality, and "CU View" video monitoring system, which provides long distance collection, transmission, storage and rebroadcast services of cross-boundary pictures, voices and various kinds of alarm signals to users based on our broadband

network. In addition, we continued to provide integrated communication and information services under the brand “CU Connected,” including information technology application, communication value-added services and basic communication products, to small and medium enterprise customers of different industries and with different needs.

As of the end of 2008, the number of our broadband content and application subscribers reached 4.39 million, representing 17.3% of the total number of broadband subscribers. With the increased penetration of our broadband contents and application services, the revenue contribution by our broadband customers was further improved.

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. In addition, we offer such ICT services as system integration and outsourcing. Our customers for these services include government entities, large financial institutions and other domestic and multinational businesses, Internet service providers and other telecommunications operators.

We have established business cooperation relationships with more than 160 overseas operators to provide various international data communications products and services, such as international voice, international dedicated leased lines (such as international private leased circuits, or IPLC, and international Ethernet private lines or IEPL), international data (such as multiprotocol label switching-virtual private network, or MPLS-VPN, and ATM/frame relay) and international Internet (such as IP transit/paid peering, dedicated Internet access, or DIA, and IP roaming). In 2008, we used our post-merger domestic and international resources to meet the demands of domestic and international customers for data communications. We have also improved our capabilities to offer cross-border data communications and integrated information services.

Managed Data Services

We provide a variety of managed data services to our business customers, including DDN, frame relay, ATM and IP-VPN services. Revenue from our managed data services decreased by 19.3% from RMB1.28 billion in 2007 to RMB1.04 billion in 2008, and accounted for 0.9% and 0.7% of total revenue from our continuing operations in 2007 and 2008, respectively.

DDN Services. DDN systems, composed of fiber-optic cables, digital transmission paths and digital nodes, are capable of providing high-quality private circuits and other services at various speeds to satisfy the multimedia communications needs of customers. Our DDN services provide high quality and reliable transmission at speeds ranging from 9.6kbps to 2Mbps to meet the increasing demand for low- to medium-speed transmission capacity from business customers and government agencies.

Frame Relay and ATM Services. We offer advanced high-speed data communications services based on frame relay and ATM technologies to major business customers, including multinational corporations, government agencies and financial institutions. These services enable flexible and cost-effective use of bandwidth resources. Our frame relay services provide high-speed, cost-effective data transmission services linking different business sites for high volume data traffic. ATM is a type of data transmission service using high bandwidth and multiplexing technology intended to handle high bandwidth, integrated voice, text, data, video and Internet traffic. Many of our customers are increasingly using frame relay and ATM services to form virtual private networks, or VPNs, to link their local area networks in different locations. VPNs enable large companies to link multiple sites and offices through a single network that uses existing switched lines to reduce cost but has capabilities comparable to a dedicated private circuit.

IP-VPN. Our IP-VPN services target business customers that require direct IP connections between multiple sites. These customers are provided with private networks intended for securing data transmission, connected to our Internet backbone network.

Leased Line Services

We are the major provider of dedicated leased line services to businesses, government agencies and other telecommunications operators in our fixed-line northern service region. These leased lines allow point-to-point connection for voice and data traffic. Leased lines are used by business customers to assemble their own private networks and by telecommunications operators to establish their service networks. We lease network elements, including digital circuits, digital trunk lines and optical fibers, to business and government customers as well as other telecommunications operators.

Revenue generated from our leased line services has grown steadily in recent years. Revenue from our leased line services increased by 22.9% from RMB3.74 billion in 2007 to RMB4.60 billion in 2008, and accounted for 2.5% and 3.1% of total revenue from our continuing operations in 2007 and 2008, respectively.

ICT Services

We began offering ICT services in 2006 to our government and corporate clients to improve their information and management system. To exploit the opportunities from the accelerated informatization development in China, we actively promoted our customized data communications services and integrated solutions to a number of large government and corporate clients. In 2008, we completed several network construction and service projects for key customers, such as China National Petroleum Corporation and the Ministry of Civil Affairs of the PRC.

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, except for the interconnection by fixed-line subscribers calling our mobile subscribers in the same region where no interconnection fee will be charged. 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. Most 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 information about our domestic and international telecommunications arrangements, see "B. Business Overview — Regulatory and Related Matters — Tariff Setting and Price Controls" under Item 4 and "B. Related Party Transactions" under Item 7.

Roaming

As of the end of 2008, our GSM network had international voice roaming arrangements with 344 operators in

204 countries and regions, GPRS international inbound roaming arrangements with 133 operators from 69 countries and regions and GPRS international outbound roaming arrangements with 46 operators from 27 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.

In February 2008, the former Ministry of Information Industry and the NDRC jointly promulgated the Tariff Notice, to require mobile telecommunication companies in China to adjust their mobile roaming charges where necessary in order to:

- equalize domestic roaming charges with charges for long distance calls made during domestic roaming;
- equalize the charges for pre-paid and post-paid mobile subscribers;
- set different tariff caps for callers and receivers in the context of domestic mobile roaming, with the tariff cap for callers being set at RMB0.6 per minute and the tariff cap for receivers being set at RMB0.4 per minute; and
- abolish the additional charge for use of the long distance network in the context of domestic roaming.

The Tariff Notice also required telecommunications companies in China to upgrade their existing billing systems to comply with these new requirements by March 1, 2008, which could be extended to May 1, 2008. We finished adjusting our charges and upgrading our billing system by March 1, 2008 in response to the requirements set forth in the Tariff Notice. 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.

On June 2, 2008, the MIIT, the NDRC and the Ministry of Finance of the PRC jointly issued the “Announcement on Deepening the Reform of the Structure of the Telecommunications Sector,” pursuant to which the PRC Government seeks to promote the integration of telecommunications services and networks of different service providers, including the offering of roaming services across different mobile telecommunications networks.

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 actively integrated our network resources to improve our network quality and capacity.

In October 2008, the MIIT and SASAC jointly issued the Urgent Notice on Promoting Joint Construction and Sharing of Telecommunications Basic Facilities, which requires telecommunications operators in China to share certain of their existing telecommunications facilities and jointly construct certain new telecommunications facilities in the future, to better utilize telecommunications facilities and reduce repetitive construction. We believe that this notice, if successfully implemented, will be beneficial to our future business operations and we have been complying with the notice in respect of our facilities construction and management. In December 2008, we entered into a cooperative agreement with China Telecom and China Mobile to share our existing telecommunications infrastructure and jointly build telecommunications infrastructure in the future.

GSM Mobile Networks

A 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.

Currently our GSM mobile network mainly operates at 900 MHz. We have deployed GSM technology that operates at 1800 MHz in major metropolitan areas to supplement the capacity of our existing mobile network. We have the right to use 6 x 2 MHz in the 900 MHz frequency spectrum and 10 x 2 MHz in the 1800 MHz frequency band for our GSM network. Our mobile networks are supported by an advanced SS7 signaling system, which fosters efficient use of network capacity, reduces call setup time and enhances transmission capabilities. We have also installed intelligent networks that enable us to provide pre-paid services and a wide range of call features and value-added services.

In 2008, we focused on constructing new base stations in 55 provincial capital cities and other economically developed cities in China to improve our GSM network quality. We also commenced preparation for 3G network deployment. For example, all of the new base stations in those 55 key cities were designed to be compatible with 3G operations in the future. In those 55 key cities, we also improved our indoor network system to enhance the indoor mobile reception quality. As a result, as of December 31, 2008, our GSM network switching capacity increased by 38.1% and the number of GSM base stations increased by 35.3% from the end of 2007. Our GSM service connection rate increased to 94.44% from 93.33% at the beginning of 2008 and the call-drop rate decreased to 0.54% from 0.63% at the beginning of 2008. We also completed the GPRS network upgrade and significantly improved the configuration of static packet data channels. As of the end of 2008, we achieved nationwide coverage of our commercial GPRS network in all 31 provinces, municipalities and autonomous regions.

On May 17, 2009, we launched the commercial operation of 3G services based on the WCDMA technology in 55 key cities on a trial basis and we aim to expand our 3G network coverage to approximately 284 cities by the end of 2009.

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.

In 2008, we continued deploying our optical network to replace our existing copper networks. In addition, we also integrated our resources to optimize and improve the transport capabilities of our IP networks and improved our long-distance soft-switch network capability. Our broadband network capacity was also substantially enhanced as of the end of 2008. The number of our IP access ports increased by 35.94% from the end of 2007, our international outbound bandwidth increased by 108% from the end of 2007, our interconnection bandwidth with China Telecom increased by 40.7% from 2007 and our backbone trunk bandwidth of IP network increased by 120.41% from the end of 2007. The percentage of broadband subscribers with 2M and over 2M access speed reached 57.5%, representing an increase of 5.5 percentage points from the end of 2007. Since our merger with China Netcom, we have become one of

the most resourceful telecommunications operators in China in terms of international networks, owning 27 cross-continental cable systems with total bandwidth of 675Gb/s and 19 international submarine systems with total bandwidth of 526Gb/s.

In addition, in 2008, as an official partner with the Beijing Olympics, China Netcom also strengthened its network servicing and maintenance for the telecommunications systems in various Olympic stadiums, arenas and offices and ensured uninterrupted communications during the Olympics period.

Marketing, Sales and Distribution

Marketing and Sales

We centrally plan our nationwide marketing and sales strategies, but the implementation of these strategies is carried out at the provincial level by operating branches tailored to their specific markets. 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. By using various sales channels, our marketing strategy can be targeted at different customer segments and adjusted timely in accordance with the demands of different markets. In 2008, following our merger with China Netcom, we utilized the opportunity for internal reorganization and established a segmented marketing system targeting individual customers, family customers and government and corporate customers, based on the characteristics of product lines and customer groups. In addition, we optimized our resource allocation and increased speed of response to market demands. Our marketing model also transformed from product-centric to customer-centric.

Distribution

We have a diversified distribution network, which consists of self-owned sales outlets, agent/distributor sales outlets, direct sales forces and electronic distribution channels, such as online e-sales stores. We distribute our services to our individual and family customers through our self-owned sales outlets, other retail outlets as well as electronic distribution channels. We distribute our services to government and corporate customers through our direct sales forces and agents. At the end of 2008, our self-owned distribution channel system had over 19,500 self-owned sales outlets and approximately 122,800 direct sales personnel and online e-sales stores. We are also supported by approximately 87,400 cooperative sales outlets and approximately 308,000 distribution agents. In 2008, we increased the usage of low cost e-channels such as “customer care centers,” online e-sales stores, SMS sales offices, mobile phone sales offices and self-service terminals. The usage of those multiple electronic channels improved our service efficiency and enhanced our customer relationship.

Customer Service

We have developed a tiered customer service system based on our service brands, and launched a uniform service brand of “Unicom 10010” to consolidate all customer service resources and unify the service standards and processing procedures adopted in our outlets, customer service centers, customer clubs and other customer service channels. Our customer service centers in each provincial service area can be accessed by our customers by dialing a nationwide hotline number “10010.” Our nationwide customer service system allows us to provide personalized and diversified services through customer service representatives or automated systems, including service inquiry, billing inquiry, response to customer complaints and suggestions, service initiation and termination, payment reminder services, emergency and club membership services. Our customers can access our customer services through various means, including telephone calls, faxes, e-mails and SMSs.

Our headquarters and provincial centers have set up hotlines for customer complaints. We also implemented a customer service responsibility system to require all levels of our branches to resolve customers’ problems within a prescribed period of time. In addition, we also analyze our customer segments in detail, and tailor our services to the requirements of different customer segments. While we are focusing on the retention of our individual and family customers, we pay regular visits and provide one-on-one personalized services to our institutional customers and VIP customers and, through “customer clubs,” provide high-quality and differentiated services for high-net-worth individual customers and important corporate customers. For mass-market customers, we offer standardized services

that aim at enhancing customer experience.

In 2008, in an effort to improve our customer service, we promoted the Nationwide Mobile Recharging Card and electronic channels across the country among GSM customers and customer appointment services among fixed-line customers. According to a customer satisfaction survey conducted by the MIIT on the telecommunications industry in 2008, the satisfaction level of our full-service customers continued to improve, and our customer service center “Unicom 10010” was once again awarded the title of “Top Ten Influential Brands in Customer Service Centers in China.” Furthermore, prior to the merger with us, China Netcom, as an official partner of Beijing Olympic Games, launched a campaign of “Olympic Gold Medal Service” across China during the Olympic Games period in the summer of 2008. As a result, China Netcom further improved its services by shortening service process and expediting response to customer inquiries. In addition, in January 2009, we completed our acquisition from Unicom Group of New Guoxin, which is mainly engaged in providing customer service. We believe this acquisition will help integrate our customer service resources.

Information Systems

We have established comprehensive information systems in each province, autonomous region and municipality to support our business and management. For our 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. In 2008, supported by our nationwide service support platform, we implemented nationwide electronic channel inquiry-based business application and mobile charging services. For our management support, we have focused on developing a human resource management system and a financial management system to enhance the efficiency of our control and management over our resources. In addition, we have established a nationwide billing and customer relationship management system at our headquarters, which has effectively supported the development of our domestic and international roaming services and our nationwide services.

Billing, Collection and Bad Debt Controls

Billing and Collection

Leveraging on our strengths as a full-service provider, we plan to offer integrated billing and collection services to our customers in the near future. We plan to integrate the billing systems for different services and distribute unified recharge cards that can be used to recharge various pre-paid services, including pre-paid mobile services. Once our plan is implemented, our billing system will be able to distinguish between customers based on the marketing method and service package plans applicable to each customer. These additional functions would allow us to analyze customer data in more detail, thereby improving our ability to analyze the age of our accounts and control bad debts.

For post-paid GSM mobile services, we centralized the billing at the provincial level and generally bill our subscribers on a monthly basis. Subscribers may pre-deposit their service charges with us, commercial banks or China Post or make payment in person at our service centers or branches of China Post or through commercial banks. For pre-paid GSM mobile services, we centralized the billing on our nationwide intelligent network. Subscribers can purchase and/or recharge pre-paid cards through various channels. They can also recharge cards by telephone.

For fixed-line services, we bill our residential customers on a monthly basis and payments are usually due, depending on the location of the customer, within a month of the last date of the billing period. We provide a range of payment choices for the convenience of our customers, including a direct-debit service, which automatically deducts the monthly payment from the subscriber’s designated bank account.

Bad Debt Controls

Mobile Services

Post-paid subscribers must register with us before they can begin using our mobile services. Customer

registration allows us to better manage customer credit. If subscribers do not pay their bills on time, we charge a late fee and will either call or send SMSs to the delinquent subscribers to remind them to pay. We generally suspend a post-paid subscriber's account if the account is more than 30 days overdue and terminate the account if it is overdue for more than three months after that. When an account is terminated, we will seek other remedies to collect the overdue payment, including personal visits to the subscribers or legal actions against them. At the same time, we encourage our subscribers to pre-deposit service charges with us, to be deducted against charges incurred in the future, or use our pre-paid services. We have also developed a customer credit management system at the provincial branch level to enhance verification of the personal information of new subscribers and tighten credit control for new subscribers.

Fixed-Line Services

We charge a late payment fee on subscriber accounts that are not paid by the monthly due date. We generally deactivate services for subscribers whose accounts are more than 30 days overdue. These subscribers whose services have been deactivated must pay all overdue amounts, including applicable late payment fees, to reactivate their services. We will terminate services to a subscriber and will remove him or her from the subscriber list if his or her account is overdue for more than three months. We have implemented certain subscriber registration procedures. We also actively promote our prepaid telephone services as a means of controlling bad debts. We have completed the upgrading of our local network to include intelligent functionalities, and have started to gradually provide customers with detailed breakdown of fee charges.

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 only 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 have applied for a number of patents and software copyrights in China. In 2008, we undertook numerous projects, including establishing China Unicom Research Institute; continuing the construction of the first postdoctoral program in China's telecommunications industry; commencing the construction of a new technology innovation system responsive to the latest technological development; conducting 2G/3G inter-operations and experiments on handset TV service management platform and near field telecommunication; demonstrating applications from China's next generation Internet, or CNGI, experimental engineering project; and building local access networks. In light of the increasingly competitive and rapidly evolving telecommunications market in China, we plan to continue to strengthen our research and development for new products, services and technology applications.

In January 2009, we completed our acquisitions of CITC and Unicom Xingye from Unicom Group. CITC is one of the first and largest top-grade comprehensive designing institutes founded by the former Ministry of Posts and Telecommunications of China and is engaged in, among other things, design and development for information networks. Unicom Xingye is engaged in, among other things, research and design of SIM cards and other telephone cards in the PRC. We believe that these acquisitions will strengthen our research and development in the areas of information networks and telephone cards.

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 services, broadband 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. 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 Limited and its affiliates, or China Mobile and China Telecom Corporation Limited and its affiliates, or China Telecom. Such competition may intensify and result in slower subscriber growth, lower tariffs and higher customer acquisition costs for us, which would materially adversely affect our financial condition, results of operations and growth prospects.” under Item 3.

Competition in Mobile Service Market

Our main competitor in the mobile communications business is China Mobile. China Mobile continues to have competitive advantages over us in brand name, market share, financial resources and network management experience. Our mobile business also competes with the CDMA mobile business of China Telecom following our sale of the CDMA business to China Telecom in October 2008. After our sale of the CDMA business, we focused on developing our GSM business. In 2008, we further improved our mobile network quality by constructing new base stations and expanding our indoor network coverage in selected cities in China, diversified our mobile value-added service offering and actively prepared for the deployment of our 3G operations.

In January 2009, China Mobile, China Telecom and Unicom Group were granted licenses by the MIIT to operate 3G businesses nationwide in China with TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. Unicom Group, with the approval of the MIIT, has authorized CUCL to operate Unicom Group’s 3G business. Each of the 3G technologies has its own technical features. Because the TD-SCDMA technology is China’s homegrown technology, the Chinese government has announced a series of favorable policies for the development of this technology. Moreover, the CDMA2000 technology that China Telecom uses to operate its 3G business, due to its technical features, can be upgraded from its 2G counterpart more easily and quickly, which allowed China Telecom to launch its 3G business earlier than us. The WCDMA technology is a relatively mature technology and supported by a well-developed WCDMA industry chain. As of the date of this annual report, China Mobile and China Telecom have launched their 3G businesses. We have launched our 3G business on a trial basis. In addition, we expect that 3G services will compete with 2G services as an industry trend in the future. This may result in adverse impact on our GSM business.

Competition in Fixed-Line Service Market

We currently compete with China Telecom and China Mobile in the fixed-line telephone business. In our fixed-line northern service region, we are the leading provider of fixed-line telephone services, including local telephone services, domestic and international long distance services and value-added services. However, in 21 provinces in southern China, we are a relatively new entrant in the fixed-line service market, where China Telecom has significant market presence. In addition, other than China Telecom and China Mobile, we also face increasing competition from other competitors in a number of areas of fixed-line business. Furthermore, the industry trend of convergence of telecommunications, Internet and cable television networks may also bring additional non-telecommunications operators to compete with us in our telecommunications businesses.

Mobile substitution for fixed-line services has been the trend in global markets in recent years, which has caused losses of our fixed-line subscribers. We expect that this trend will continue. In addition, as the 3G industry continues to develop in China, we expect that wireless Internet access will become another main form of broadband access in the future, which may result in decreased use of fixed-line broadband access by our fixed-line broadband subscribers.

Strategic Alliances

Strategic Alliance with Telefónica. Prior to its merger with us, China Netcom established a strategic alliance relationship with Telefónica International, S.A.U., pursuant to a strategic alliance agreement entered into by them in November 2005. Under the agreement, China Netcom and Telefónica identified a number of areas in the telecommunications business for potential cooperation. In January 2008, the beneficial owners of 148,015,436 China Netcom shares entered into a share purchase agreement with Telefónica to transfer their shares to Telefónica. Upon the completion of this transaction, Telefónica held approximately 7.2% of China Netcom’s outstanding shares.

Following our merger with China Netcom in October 2008, Telefónica became one of our shareholders and held a 5.38% interest in our company as of May 31, 2009. 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.

Strategic Alliance with SKT. In June 2006, we entered into a strategic alliance framework agreement with SK Telecom Co., Ltd., or SKT, a mobile telecommunications service provider in Korea. Pursuant to this agreement, SKT and we agreed to explore cooperation initiatives on the further development of CDMA mobile communication services in China. Following the disposal of our CDMA business to China Telecom, SKT and we are currently exploring opportunities for cooperation in the WCDMA technologies-related areas in the future. In August 2007, SKT converted in full its US\$1 billion zero coupon convertible bonds issued by us into 899,745,075 shares at HK\$8.63 per share pursuant to the subscription agreement, dated June 20, 2006, between SKT and us. Following the conversion of these convertible bonds, SKT became the holder of a 6.61% ownership interest in our company. After our merger with China Netcom, SKT held 899,745,075 of our outstanding shares and SKT's ownership interest in our company was 3.79% as of May 31, 2009.

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 ("联通"). Unicom Group has granted us the right to use these trademarks on a royalty-free basis, and licensed us any trademark that it registers in China in the future which incorporates the word Unicom. In addition, prior to our merger with China Netcom, China Netcom marketed their services under the "CNC" brand name and logo, which are registered trademarks in China owned by Netcom Group, which merged with, and was absorbed by, our parent company, Unicom Group, in January 2009.

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 State Council, 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;
- 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 Communications Administration in each province, 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.

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. It also approves investment projects within the restricted sectors specified in an annually adjusted catalogue released by the State Council.

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. 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 the PRC.

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. Currently, the frequencies allocated for mobile telecommunications are the 800 MHz, 900 MHz and 1,800 MHz bands, as well as the 1.9GHz and 2.1 GHz bands for 3G mobile telecommunications. The frequency assigned to a telecommunications operator may not be leased or transferred without the MIIT's approval.

Since January 1, 2008, the NDRC and the Ministry of Finance have made the following adjustments to the standard fees for the telecommunications operators' usage of the frequencies assigned to cellular telecommunications: (i) for the nationwide GSM and CDMA network frequency, an annual rate of RMB17 million per MHz for the 900MHz band (including the 800MHz CDMA band) and an annual rate of RMB15 million per MHz for the 1800 MHz band; and (ii) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz for each province for the 900MHz band (including the 800MHz CDMA band) and an annual rate of RMB1.5 million per MHz for each province for the 1800 MHz band. The fee standards for nationwide networks are to be applied if the

relevant networks cover 10 or more provinces, autonomous regions or municipalities. The aggregate fees we paid for frequency usage amounted to approximately RMB590 million, RMB612 million, and RMB654 million in 2006, 2007, and 2008, respectively.

The MIIT is also responsible for the administration of China's telecommunications network number resources. In January 2003, the former Ministry of Information Industry issued the Measures for the Administration of Telecommunications Network Numbers, which took effect on March 1, 2003. According to these measures, 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's use of number resources.

In December 2004, the former Ministry of Information Industry, the Ministry of Finance and the NDRC jointly issued the Provisional Administrative Measures with Respect to the Collection of Usage Fees for Telecommunications Network Number Resources, under which telecommunications operators are required to pay usage fees by the tenth day of the first month of each quarter. Mobile telecommunications operators are required to pay an annual usage fee of RMB12 million for each mobile network number. The usage fees we paid for network numbers totaled RMB44.62 million, RMB42.88 million, and RMB71.06 million in 2006, 2007 and 2008, respectively.

In addition, in January 2009, the MIIT issued the Notice on Matters Relating to Wireless Access Systems Operating on 1900-1920 MHz Frequency Bands, which, among others, required that the current wireless access systems operating on 1900-1920MHz frequency band be cleared and removed by the end of 2011. Those frequency bands will be reserved for the operation and development of the TD-SCDMA technology. See "D. Risk Factors — Risks Relating to Our Business — If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers, our financial condition and results of operations may be adversely affected." under Item 3.

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 usage fee for local telephone service are regulated as fixed tariffs, which are fixed jointly by the MIIT and the NDRC. The MIIT regulates the maximum tariffs for traditional domestic long distance services, traditional international long distance services to Hong Kong, Macau and Taiwan. 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.

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.

In 1997, the PRC Government granted us preferential treatment by allowing us to vary our mobile tariffs by up to 10% from the State-guidance rates.

In December 2000, the former Ministry of Information Industry, the former State Development Planning Commission and the Ministry of Finance jointly issued a tariff adjustment circular, which provides for tariff adjustments for a wide range of telecommunications services. Effective from February 21, 2001, we have adopted these government tariff adjustments.

In June 2001, the Ministry of Finance and the former Ministry of Information Industry jointly issued a circular to revoke certain fees including one-time upfront connection fees charged to the fixed-line telephone users and one-time activation fees charged to the mobile subscribers.

In June 2004, the former Ministry of Information Industry and the NDRC jointly issued a notice aimed at further strengthening the regulatory oversight of telecommunications tariffs. The notice requires telecommunications services providers to strengthen their internal control and management of tariff setting activities. Specifically, the notice requires services providers to strictly comply with the relevant government regulations relating to the procedures for the approval and registration of telecommunications tariffs.

In August 2005, the former Ministry of Information Industry and NDRC jointly issued a notice stipulating that, with the exception of IP telephony services, maximum charges for many telecommunications services may not exceed the current level of charges.

In September 2006, the former Ministry of Information Industry issued a notice stipulating that the telecommunications operators shall be responsible for the accuracy of the fees to be charged and collected for the wireless information services. In providing the wireless information services, the telecommunications operators shall respect users' choice and information rights and treat users in a fair manner.

Since 2007, the former Ministry of Information Industry and the MIIT have encouraged wireless telecommunications operators to adopt the "Calling-Party-Pays" tariff policy. In light of this regulatory initiative, we have implemented such billing arrangements in all new tariff packages offered throughout our service areas after July 1, 2007.

On February 13, 2008, the former Ministry of Information Industry and the NDRC jointly promulgated the Tariff Notice. According to the Tariff Notice, we are required to adjust our then-effective mobile roaming charges where necessary to:

- equalize domestic roaming charges with charges for long distance calls made during domestic roaming;
- equalize the charges for pre-paid and post-paid mobile subscribers;
- set different tariff caps for callers and receivers in the context of domestic mobile roaming, with the tariff cap for callers being set at RMB0.6 per minute and the tariff cap for receivers being set at RMB0.4 per minute; and
- abolish the additional charge for use of the long distance network in the context of domestic roaming.

The Tariff Notice requires telecommunication companies in China to upgrade their existing billing system in order to comply with the above new requirements by March 1, 2008.

In addition, on February 14, 2008, the former Ministry of Information Industry promulgated the Guidelines for Regulating Telecommunications Services Tariff Schemes, or the Guidelines, to encourage the PRC telecommunication operators to provide multiple tariff schemes for customers. The Guidelines also specify that the number of such tariff schemes provided by a telecommunication operator should be limited to ten for a single service

area. In addition, the Guidelines encourage telecommunication operators to simplify their tariff structure.

In 2008, the MIIT and the NDRC issued a Notice regarding the Cancellation of Differentiated Tariffs on SMS, requiring each telecommunications operator in China to unify tariffs on its inter-network and intra-network SMS services to promote fair competition.

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 Services

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:

	<u>Post-paid Services</u> RMB	<u>Pre-paid Services</u> 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

Local Telephone Services

For our local telephone services, we charge a registration fee for initial installation 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. The following table sets forth our current tariffs for local telephone services provided on our traditional and PHS network:

	<u>Tariff (in RMB)</u>
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) ⁽¹⁾
Communication fee:	
Internet dial-up	0.02 per pulse (one minute intervals)

(1) Prior to January 1, 2008, inter-district usage fee was up to 0.40 per pulse (one minute intervals).

Domestic Long Distance Services

Our revenues from domestic long distance services consist of charges based on the duration, time of day and day of the week a call is placed. The following table sets forth the current tariffs for our domestic long distance telephone services using our traditional network:

	<u>Tariff (in RMB)</u>
Domestic long distance services on our traditional network ⁽¹⁾	0.07 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.

International Long Distance Services

The MIIT regulates the maximum tariffs that we may charge for international long distance services. The following table sets forth our current international long distance tariffs:

	<u>Tariff (in RMB)</u>
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.

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. Interim tariffs for our ATM services are determined at our discretion, subject to approval by the MIIT. An initial 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:

	<u>Monthly Fee</u>			
	<u>64kbps</u>	<u>128kbps</u>	<u>512kbps</u>	<u>1Mbps</u>
	(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⁾:

	<u>Monthly Fee</u>			
	<u>64kbps</u>	<u>256kbps</u>	<u>512kbps</u>	<u>1Mbps</u>
	(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	3000

(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
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.

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.

In November 2005, the Ministry of Information Industry issued the Notice on Adjustment to Settlement for Interconnection Fees of Fixed-Line Local Telephone Networks, which provides for new settlement arrangement standards for fixed-line local telephone operators.

In October 2006, the Ministry of Information Industry issued a second notice, which provides for a further adjustment of the settlement standards for fixed-line local telephone operators.

On November 14, 2007, the former Ministry of Information Industry amended and issued the new regulations on interconnection settlement arrangements for Internet exchange centers, which reduced the standard monthly settlement tariff for Internet exchange centers from approximately RMB2,000/Mbps per month to RMB1,000/Mbps per month.

Unicom Group has 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.
Local fixed-line operator	Mobile operator	No revenue sharing or settlement.
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

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
		trunk circuit, operator A collects the usage charge from its subscribers and pay RMB0.15 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

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	Without using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) Operator A collects the tariff from the subscribers; (2) If operator B is a fixed-line operator, operator A retains RMB0.06 per minute; if operator B is a mobile operator, operator A retains local usage fee and RMB0.06 per minute; (3) Operator B receives the rest of the international long distance tariff.
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(1) Operator B collects the tariff from the subscribers; (2) Operator B pays operator A RMB0.06 per minute, and operator B retains the rest of the international long distance tariff.
Local fixed-line or mobile operator A	Without using the carrier identity code of operator, through domestic long distance network of operator A and international gateway of domestic operator B to international end users.	(1) If operator A is a fixed-line operator, operator A retains a maximum amount of RMB0.54 per minute, and operator B receives the rest of the international long distance tariff; (2) If operator A is a mobile operator, operator A retains local call tariff and RMB0.54 per minute.

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

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

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 for the equipment that has successfully passed the relevant tests. Only telecommunications equipment for which a license 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, 3rd Generation Partnership Project 2 and other international organizations for telecommunications standards, with more specific requirements made in light of China's particular telecommunications industry. In January 2006, the former Ministry of Information Industry issued the technical standards for the TD-SCDMA technology, which China Mobile has been authorized to use for its 3G operations. Such technical standards have been adopted by the ITU as the international 3G standards for the TD-SCDMA technology. In May 2007, the former Ministry of Information Industry issued the technical standards for the other two 3G technologies, WCDMA and CMDA2000, which we and China Telecom have been authorized to use, respectively, for our 3G operations. 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 telecommunication 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 Communications 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.

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. The MIIT and other relevant government authorities are still in the process of formulating the detailed regulations relating to the provision of such universal services. Such regulations, if promulgated, may require us to incur significant expenses to fulfill our universal service obligations and therefore could materially adversely affect our financial condition and results of operations.

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. In order to fulfill such obligations under those transitional measures, Unicom Group has agreed with us that it will assume the responsibility for investing in and constructing the necessary network facilities. If we operate and maintain such network facilities in our service regions, Unicom Group has agreed to compensate us for the related expenses based on fair market value. 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.

Capital Investment

On July 16, 2004, the State Council promulgated, effective immediately, the Decision on Reform of Investment System, or the Investment Reform Decision, which significantly modified the government approval process for major investment projects in China. The Investment Reform Decision eliminated the government approval requirements for investment projects that do not involve direct government funding unless the investment projects are in the restricted sectors specified in an annually adjusted catalogue released by the State Council. The 2004 catalogue, which was attached as an annex to the Investment Reform Decision, sets forth approval requirements for individual investment projects in restricted sectors. Within the telecommunications sector, the investment projects that require the approval of the NDRC include:

- domestic backbone transmission networks (including broadcasting and television networks);
- international telecommunications transmission circuits;
- international gateways;
- international telecommunications facilities for dedicated telecommunications networks; and
- other telecommunications infrastructure projects involving information security.

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 May 31, 2009, we were 40.92% 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 61.05% owned by Unicom Group, 29.49% owned by Netcom BVI, which in turn was 100% owned by Unicom Group, 20.42% owned by public shareholders, 5.38% owned by Telefónica and 3.79% owned by SKT. See “A. History and Development of the Company” above. Set forth below are details of our significant subsidiaries:

<u>Name of Subsidiary</u>	<u>Country of Incorporation</u>	<u>Ownership Interest</u>
China United Network Communications Corporation Limited	China	100%
China Netcom Group Corporation (Hong Kong) Limited	Hong Kong	100%
China Unicom International Limited	Hong Kong	100%

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. Since these are our first consolidated financial statements prepared in accordance with IFRS, pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, the following is limited to a discussion of our financial condition and results of operations for the years ended December 31, 2007 and 2008, and no comparative information for the year ended December 31, 2006 has been included. For further details, please see “Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report” above.

Merger with China Netcom, Acquisitions of Unicom Guizhou and Design Institute, and Disposal of CDMA Business and Fixed-Line Business and Assets in Shanghai and Guangdong

We completed a merger with China Netcom in October 2008. See “A. History and Development of the Company — Sale of CDMA Business, Merger with China Netcom and Related Transactions” under Item 4. Because we and China Netcom were under the common control of the PRC Government both prior to and after the merger, 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. In addition, we completed the acquisition of certain assets and business of Unicom Guizhou from Unicom Group in December 2007 and, prior to the merger with us, China Netcom completed an acquisition of the entire equity interest of Design Institute, a wholly-owned subsidiary of Netcom Group, in December 2007. Because we and Unicom Guizhou were under the common control of Unicom Group both prior to and after our acquisition of Unicom Guizhou, and 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, both acquisitions have been accounted for using merger accounting in accordance with AG5. 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. The acquired assets and liabilities of China Netcom, Unicom Guizhou and Design Institute are stated at historical cost, and are included in the consolidated financial statements included in this annual report on Form 20-F as if those entities and their businesses acquired had always been part of our Company. Accordingly, the 2007 comparative figures in the consolidated financial information included in this Form 20-F have been restated to reflect the financial position, results of operations and cashflows of these acquired businesses.

In addition, 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” under Item 4. In accordance with IFRS/HKFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations,” we recognized the CDMA business segment as discontinued operations and the CDMA business is presented separately as discontinued operations in our audited consolidated statement of income and statement of cash flow for the year ended December 31, 2008. As a result, the 2007 comparative figures in our audited consolidated statement of income and statement of cash flow included in this annual report on Form 20-F have been restated accordingly. Prior to our merger with China Netcom, China Netcom completed a 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. In accordance with IFRS/HKFRS 5, we recognized the fixed-line businesses in Guangdong and Shanghai branches as discontinued operations, and the fixed-line business in Guangdong and Shanghai branches are presented separately as discontinued operations in our audited consolidated statement of income and statement of cash flow for the year ended December 31, 2007.

Overview

As a result of our merger with China Netcom in October 2008, we have become 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 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 Telecommunications Industry.”

The table below sets forth revenues from our major businesses and their respective percentage of our total revenue from continuing operations in 2007 and 2008 (excluding fixed-line upfront connection fees of RMB1,517 million in 2007 and RMB886 million in 2008).

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Continuing Operations				
Total revenue (excluding fixed-line upfront connection fees)*	149,170	100.0	148,020	100.0
Total service revenue (excluding fixed-line upfront connection fees)	148,230	99.4	146,366	98.9
Include: GSM mobile business	62,547	41.9	64,704	43.7
Fixed-line business	85,683	57.5	81,662	55.2
Out of which:				

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Continuing Operations				
Broadband service	14,273	9.6	18,114	12.2
Total sales of telecommunications products	940	0.6	1,654	1.1

* 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 revenues from continuing operations primarily consist of the following:

- usage fees and monthly fees for our GSM 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 and other Internet-related services, mainly consisting of Internet access services, and managed data services, which is recognized when we render the service to our customers;
- revenue from interconnection with other telecommunications operators, including Unicom Group, for calls made from their networks to our networks. We recognize interconnection revenue when the relevant calls are made by subscribers;
- revenue from ICT services, which is 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 provide 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 recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; (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; and
- rental income from leases of customer-end equipment and transmission lines on our networks to Unicom Group, business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

Our revenue from continuing operations remained stable in 2008. Excluding RMB0.89 billion deferred fixed-line upfront connection fees, our revenue from continuing operations in 2008 was RMB148.02 billion, down by 0.8% from 2007, of which service revenue accounted for RMB146.37 billion, down by 1.3% from 2007, and revenue from sale of telecommunications products accounted for RMB1.65 billion, up by 76.0% from 2007.

The following table sets forth our major costs and expenses items, both in terms of amount and as a percentage of total revenue from continuing operations in 2007 and 2008 (excluding fixed-line upfront connection fees of RMB1,517 million in 2007 and RMB886 million in 2008).

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	% of Total	RMB in millions	% of Total
Continuing Operations				
Total revenue (excluding fixed-line upfront connection fees)*	149,170	100.0	148,020	100.0
Costs and expenses	123,446	82.8	140,765	95.1
Interconnection charges	11,214	7.5	12,011	8.1
Depreciation and amortization	47,369	31.8	47,678	32.2
Networks, operations and support expenses	16,022	10.7	16,577	11.2
Employee benefit expenses	17,540	11.8	18,902	12.8
Selling and marketing	17,562	11.8	17,384	11.7
General, administrative and other Expenses	13,981	9.4	14,131	9.6
Cost of telecommunications products sold	1,233	0.8	2,067	1.4
Finance costs, net of interest income	2,946	2.0	2,172	1.5
Impairment loss on property, plant and equipment	—	—	11,837	8.0
Realized loss on changes in fair value of derivative component of the convertible bonds	569	0.4	—	—
Other income-net	(4,990)	(3.4)	(1,994)	(1.4)

* 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, including Unicom Group and Netcom Group, 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;
- 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 share options;
- selling and marketing expenses, including commissions, promotion and advertising expenses, amortization of direct incremental costs for activating subscriber services and customer retention costs; and
- general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses.

We have aimed to strengthen management and control costs to achieve greater efficiency. However, due to a series of challenges in 2008, including an economic downturn, natural disasters and industry restructuring, our total costs and expenses from continuing operations in 2008, excluding the effects of the non-recurring items, consisting of impairment loss on PHS business-related assets of RMB11.84 billion in 2008, tax refund on reinvestment in subsidiaries of RMB4.00 billion in 2007 and realized loss on changes in fair value of derivative component of the convertible bonds of RMB0.57 billion in 2007, would be RMB128.93 billion, up by 1.6% from 2007. We believe that these non-recurring items are not indicators of our operating performance from the perspective of continuing

operations and thus excluding the effects of these non-recurring items may facilitate a better assessment of our performance and liquidity.

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 in this annual report. 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;
- Revenues from the provision of broadband and other Internet-related services and managed data services are recognized when the services are provided to customers;
- Revenue from telephone cards, which represents service fees received from customers for telephone services, is recognized when the related service is rendered upon actual usage of the telephone cards by 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;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalized ring, wireless data services, 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 CDMA promotional packages where CDMA handsets are provided to subscribers for their use during a specified contract period (see Note 4.2(a) to our consolidated financial statements included in this annual report), since the commercial substance of the transaction is to develop new contractual subscribers by offering handsets, the two elements of CDMA cellular services and handsets are considered as a linked transaction. Service revenues from such promotional packages are recognized based upon the actual usage of cellular services at the tariff set out in the contracts.
- Certain PHS bundled service contracts comprise the provision of PHS services and handsets to customers, under which customers either prepay a certain amount of service fee or commit to spend a minimum monthly service fee for a designated period in order to receive a free handset. When all of the following criteria are met, PHS handsets and related services are separately recognized as revenues according to their relative fair values. When any one of the following criteria is not met, total revenues from PHS bundled service contracts are recognized on a systematic basis to match the shorter of the pattern of usage of the PHS services by customers and the minimum non-cancellable contractual period.
 - (i) PHS handsets and related services have value on a stand-alone basis;
 - (ii) Reliable estimate for fair value of PHS handsets and related services exists; and
 - (iii) In arrangements that include a general right of refund for the delivered item, performance of the undelivered item is considered probable and substantially in our control.
- 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, 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; (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.

Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including connection fees, installation fees and receipts from the activation of SIM/UIM cards relating to the GSM and CDMA 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 revenues 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. A portion of revenue equal to the fair value of 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 deferred revenue is recognized 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.

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.

Critical Accounting Estimates and Judgments

Recognition of Upfront Non-Refundable Revenue and Direct Incremental Costs

Mobile Telecommunications Services

We defer and amortize upfront non-refundable revenue, including connection fees and activation fees of SIM cards or UIM cards from mobile subscribers over the expected customer service period. Accordingly, the related direct incremental costs of acquiring and activating GSM and CDMA subscribers, including costs of SIM or UIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activation of mobile services, are also capitalized and amortized over the same expected customer service period. We only capitalized 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, are expensed to the statements of income immediately. The weighted average customer service period of mobile business based on current estimates after considering the prevailing market environment is approximately 3 years (2007: approximately 3 years).

The expected customer service period for our GSM and CDMA mobile business is estimated based on the expected stabilized churn rates of subscribers after taking into consideration factors such as customer retention experience, the expected level of competition, the risk of technological or functional obsolescence of our services and the current regulatory environment. If the estimate of the expected stabilized churn rate changes for future periods as a result of unexpected changes in competition environment, telecommunications technology or regulatory environment, the amount and timing of recognition of these deferred direct incremental costs and deferred revenue would also be changed.

Fixed-Line Telecommunications Services

We defer the recognition of upfront customer connection and installation fees and amortize them over the expected customer relationship period of 10 years. The related direct incremental installation costs are deferred and amortized over the same expected customer relationship period of 10 years, except when the direct incremental costs exceed the corresponding installation fees, the excess amounts are immediately written off as an expense to the statements of income.

We estimate the expected customer relationship 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 relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues may change for the future periods.

Depreciation on Property, Plant and Equipment

Depreciation on our property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts 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.

Revaluation of Property, Plant and Equipment

Property, plant and equipment other than buildings and telecommunications equipment related to our GSM services is carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and impairment. See Note 2.6 (iii) to our consolidated financial statements included in this annual report. Such equipment was revalued on a replacement cost or open market value approach, as appropriate, by an independent valuer. If the revalued amounts differ significantly from the carrying amounts of the equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the equipment. This will have an impact on our future results, since any subsequent decreases in valuation are first set off against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the statements of income and any subsequent increases are credited as income to the statements of income up to the amount previously charged to the statements of income and thereafter are credited to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such equipment change as a result of the revaluation.

Impairment of Non-Current Assets

We test whether non-current assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.10 to our consolidated financial statements included 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. We estimate 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-current assets and our results would be significantly affected. Such impairment losses are recognized in the statements of income, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

During 2008, we conducted the impairment test for the PHS service related assets, after considering the expected significant decline in revenue and profitability in 2009 and onwards. The impaired PHS business related assets were written down to their recoverable amount, which was determined based on their estimated value in use as there is no active market transaction for PHS business related assets. Estimated value in use was determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS business related assets. In estimating the future net cash flows, we made key assumptions and estimates on the appropriate discount rate of 15%, the period covered by the cash flow forecast of 3 years, the future loss of customers at an annual rate of declining ranging from 60% to 80%, and the decrease in average revenue per subscriber at an annual rate of decline at 15%.

These assumptions and estimates were made after considering the historical trends, the prevailing market trends and the physical conditions of the PHS business related assets. Changes in these assumptions and estimates could have a significant impact on the estimated recoverable amount. Based on above, we recognized RMB11,837 million (2007: Nil) of impairment loss on PHS services related assets for the year ended December 31, 2008.

Provision for Doubtful Debts

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. We evaluate specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. We record a provision based on our best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as at each reporting date, we make a provision based on observable data indicating that there is a measurable decrease in the estimated future cash flows from the remaining balances. We make such estimates based on our past experience, historical collection patterns, subscribers' creditworthiness and collection trends. For general subscribers, we make a full provision for receivables aged over 3 months, which is consistent with our credit policy with respect to the relevant subscribers.

Our estimates described above are based on past experience, subscribers' creditworthiness and collection

trends. If circumstances change, including changes due to factors including developments in our business and the external market environment, we may need to re-evaluate our policies on doubtful debts, and make additional provisions in the future.

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 impairment loss and revaluation deficit on property, plant and equipment, provision for doubtful debts, deferred revenue and accruals of expenses not yet deductible for tax purpose. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to approximately RMB5,326 million as at December 31, 2008 (2007: approximately RMB2,514 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 tax provisions and deferred taxes based on the prevailing tax rules, regulations and interpretations and our current best estimates and assumptions. See “E. Taxation — People’s Republic of China” under Item 10. In the event that future tax rules, regulations and interpretations or related circumstances change, adjustments to current and deferred taxation may be necessary.

Equity-Settled Share Options

On October 15, 2008, we granted share options under a special purpose share option scheme. See “E. Share Ownership — Stock Incentive Schemes — Special Purpose Share Option Scheme” under Item 6. The fair value of these options which are not traded in an active market are determined by using valuation techniques. We use our judgment to select an appropriate valuation method and make assumptions that are mainly based on market conditions existing at the grant date. The valuation model requires the input of subjective assumptions, including the volatility of share price, dividend yield and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. For details, please refer to Note 32 to our consolidated financial statements included in this annual report.

Recently Issued International 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, 2008 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 2008 financial statements, the following new standards and amendments or revisions to existing standards have been issued but not yet effective for the annual accounting period ended December 31, 2008 and have not been adopted by us:

	Effective for accounting period beginning on or after
IAS/HKAS 1 (Revised) “Presentation of Financial Statements”	January 1, 2009
IAS/HKAS 23 (Revised) “Borrowing Costs”	January 1, 2009

	Effective for accounting period beginning on or after
IAS/HKAS 27 (Revised) "Consolidated and Separate Financial Statements"	July 1, 2009
IFRS/HKFRS 2 (Amendment) "Share-based Payment"	January 1, 2009
IFRS/HKFRS 3 (Revised) "Business Combination"	July 1, 2009
IFRS/HKFRS 8 "Operating Segments"	January 1, 2009
IASB's improvements to IFRS/HKICPA's improvements to HKFRS:	
IAS/HKAS 1 (Amendment) "Presentation of Financial Statements"	January 1, 2009
IAS/HKAS 19 (Amendment) "Employee Benefits"	January 1, 2009
IAS/HKAS 23 (Amendment) "Borrowing Costs"	January 1, 2009
IAS/HKAS 27 (Amendment) "Consolidated and Separate Financial Statements"	January 1, 2009
IAS/HKAS 36 (Amendment) "Impairment of Assets"	January 1, 2009
IAS/HKAS 40 (Amendment) "Investment Property" (and consequential amendments to IAS/HKAS 16 "Property, Plant and Equipment")	January 1, 2009
IFRS/HKFRS 5 (Amendment) "Non-current Assets Held for Sale and Discontinued Operations" (and consequential amendments to IAS/HKAS 1 "First-time Adoption")	July 1, 2009

Apart from the above, there are also a number of minor amendments to IFRS/HKFRS 7, including "Financial Instruments: Disclosures," IAS/HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," IAS/HKAS 10, "Events After the Balance Sheet Date," IAS/HKAS 18, "Revenue" and IAS/HKAS 34, "Interim Financial Reporting."

We are currently in the process of making an assessment of the expected impact of these new standards, and amendments/revisions to existing standards in the period of initial application.

In addition, we have elected early adoption of IFRIC/HK(IFRIC) 13, "Customer Loyalty Programmes" for the year ended December 31, 2008. In terms of the impact of early adoption of IFRIC/HK(IFRIC) 13, please see Note 2.2 point (b) "Subscriber point reward program" under the section headed "Changes of Accounting Policies and Estimates" to our financial statements included in this annual report.

Operating Results

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

In 2008, we experienced various challenges, including changes in the economic environment, a further intensified trend of mobile substitution in our fixed-line business and downward adjustments in mobile roaming tariffs, as well as the telecommunications industry restructuring. By improving customer value, promoting bundling of fixed-line and mobile services and the application of value-added services, we maintained stable revenue from continuing operations. Revenues from continuing operations for 2008 amounted to RMB148.91 billion, a decrease from RMB150.69 billion for 2007, of which fixed-line upfront connection fees amounted to RMB0.89 billion. Excluding the effects of fixed-line upfront connection fees, our revenues from continuing operations for 2008 would amount to RMB148.02 billion, representing a decrease of 0.8% from RMB149.17 billion in 2007, of which our service revenue was RMB146.37 billion, representing a decrease of 1.3% from RMB148.23 billion in 2007, and revenue from sale of telecommunications products was RMB1.65 billion, representing an increase of 76.0% from RMB0.94 billion in 2007.

Mobile Business Revenue

Revenue from our GSM mobile business grew in 2008. Revenue from our GSM mobile business increased by 4.3% from RMB62.56 billion in 2007 to RMB65.25 billion in 2008. Revenue from our GSM mobile business, as a percentage of our total revenue from continuing operations (excluding fixed-line upfront connection fees), increased

from 41.9% in 2007 to 44.1% in 2008. The growth in revenue from our GSM mobile business is primarily due to the continued increase in the total number of our total GSM mobile subscribers, partially offset by the decrease in our subscribers' ARPU.

Our total number of GSM mobile subscribers was 133.37 million as of December 31, 2008, an increase of 10.6% from 120.56 million as of December 31, 2007. Total usage of our GSM mobile services was 376.67 billion minutes, an increase of 10.3% from 2007. ARPU from our GSM mobile business was RMB42.3 in 2008, a decrease of 7.4% from RMB45.7 in 2007. This decrease was primarily due to (i) our decreasing effective tariffs, which mainly resulted from pricing competition with other telecommunication operators in China and downward adjustments on tariffs by the PRC Government (which may continue in the future); and (ii) the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services (mobile services, in particular) and are more cost-sensitive than users from urban areas. The average MOU decreased by 1.3%, from 249.7 minutes in 2007 to 246.4 minutes in 2008, primarily due to the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services than urban users. 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" and "D. Risk Factors — We may experience further declines in ARPU for our telecommunications services" under Item 3.

The table below sets forth the revenue composition of our GSM mobile business and each revenue item's respective share of total GSM revenue for the years ended December 31, 2007 and 2008.

	2007		2008	
	RMB in million	As % of total	RMB in million	As % of total
Total revenue from GSM services	62,559	100.0%	65,254	100.0%
Service revenue	62,547	100.0%	64,704	99.2%
Usage fees and monthly fees	42,077	67.3%	40,464	62.0%
Value-added service revenue	13,528	21.6%	16,263	24.9%
Interconnection revenue	5,851	9.4%	6,858	10.5%
Others	1,091	1.7%	1,119	1.8%
Sales of GSM mobile telecommunications products	12	0.0%	550	0.8%

Usage Fees and Monthly Fees. As a result of our tariff adjustments in response to intense market competition and the MIIT's roaming charges adjustment in 2008, usage fees and monthly fees for our GSM mobile services were RMB40.46 billion in 2008, a decrease of 3.8% from RMB42.08 billion in 2007, and as a percentage of our total GSM service revenue, decreased from 67.3% in 2007 to 62.5% in 2008.

Value-Added Service Revenue. As a result of our promotion of the value-added business, revenues from our GSM value-added services amounted to RMB16.26 billion in 2008, an increase of 20.2% from RMB13.53 billion in 2007 and as a percentage of GSM service revenue increased from 21.6% in 2007 to 25.1% in 2008. Of the total revenue from GSM value-added mobile services, revenue from our SMS services increased by 8.8% from RMB5.99 billion in 2007 to RMB6.52 billion in 2008; revenue from "Cool Ringtone" services increased by 34.6% from RMB1.85 billion in 2007 to RMB 2.49 billion in 2008; and revenue from caller identification services increased by 15.0% from RMB3.26 billion in 2007 to RMB3.75 billion in 2008. In addition, as we further expanded the coverage of our GPRS services and improved the quality of our GPRS network in 2008, our GPRS services became a new contributing factor to the growth of our GSM mobile value-added services. Revenue from our GPRS services significantly increased by 705.8% from RMB155 million in 2007 to RMB1,249 million in 2008 and its share of total GSM service revenue grew from 0.2% in 2007 to 1.9% in 2008.

Interconnection Revenue. Our interconnection revenue increased by 17.2% from RMB5.85 billion in 2007 to RMB6.86 billion in 2008, and represented 10.6% of total service revenue in 2008 as compared with 9.4% in 2007. This increase is primarily due to the increased total usage of our GSM mobile services.

Sales of Telecommunications Products. Revenues from our sale of GSM mobile telecommunications products increased 4,483.3% from RMB12 million in 2007 to RMB550 million in 2008, mainly due to the establishment of Unicom Vsens Telecommunications Company Limited in August 2008, which was principally

engaged in sales of GSM handsets and telecommunications equipment and provision of technical services.

Fixed-Line Business Revenue

In 2008, as mobile substitution further intensified and the declining trend of the fixed-line voice business continued, we further adjusted our business structure and continued to focus on the development of fixed-line broadband services. Excluding fixed-line upfront connection fees, our revenue from fixed-line business would have decreased by 4.4% from RMB86.61 billion in 2007 to RMB82.77 billion in 2008, of which service revenue would have decreased by 4.7% from RMB85.68 billion in 2007 to RMB81.66 billion in 2008. 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” and “D. Risk Factors — We may experience further declines in ARPU for our telecommunications services” 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, 2007 and 2008.

	For the Years Ended December 31,			
	2007		2008	
	RMB in Million	As % of Total	RMB in Million	As % of Total
Total revenue from fixed-line business (excluding fixed-line upfront connection fees)*	86,611	100.0	82,766	100.0
Service revenue (excluding fixed-line upfront connection fees)*	85,683	98.9	81,662	98.7
Usage fee and monthly fee	44,227	51.1	37,324	45.1
Fixed-line broadband service revenue	14,273	16.5	18,114	21.9
Interconnection revenue	7,911	9.1	7,500	9.1
Value-added service revenue	6,758	7.8	6,591	8.0
Leased line service revenue	3,741	4.3	4,597	5.6
Managed data, other internet-related service revenue	1,835	2.1	1,673	2.0
Others	6,938	8.0	5,863	7.0
Sales of fixed-line telecommunications products	928	1.1	1,104	1.3

* 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 the full 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. We experienced significant decline in the number of our fixed-line local telephone subscribers and substantial decline in revenue. Our local telephone subscribers decreased by 9.6% from 110.82 million at the end of 2007 to 100.15 million at the end of 2008. ARPU of the local telephone business decreased by 8.7% from RMB38.1 in 2007 to RMB34.8 in 2008. Total usage of local calls decreased by 7.3% from 202.55 million pulses in 2007 to 187.84 million pulses in 2008 and total usage of long distance calls decreased by 11.2% from 29.14 million minutes in 2007 to 25.87 million minutes in 2008. As a result, revenues from our usage fees and monthly fees in 2008 decreased by 15.6% from RMB44.23 billion in 2007 to RMB37.32 billion in 2008.

Fixed-Line Broadband Service Revenue. Revenue from our fixed-line broadband services consists of revenue generated from DSL, LAN, and broadband-related value-added services. In 2008, we continued to focus on developing our fixed-line broadband services. Under our “content + application + access + services” marketing model, we improved penetration rate of our fixed-line broadband service, increased broadband access speed and diversified offerings of fixed-line broadband applications and bundled packages with fixed-line broadband services. While

expanding the subscriber base of fixed-line broadband services, we stabilized the ARPU of our fixed-line broadband subscribers and increased the percentage of high-speed fixed-line broadband subscribers among all fixed-line broadband subscribers. Our fixed-line broadband subscribers increased by 28.6% from 19.77 million in 2007 to 25.42 million in 2008. ARPU of our fixed-line broadband business decreased from RMB69.5 in 2007 to RMB65.2 in 2008. However, revenues from our fixed-line broadband service increased significantly by 26.9% from RMB14.27 billion in 2007 to RMB18.11 billion in 2008, and as a percentage of the fixed-line service revenue, increased from 16.7% in 2007 to 22.2% in 2008. Fixed-line broadband service has become the main factor in counteracting the effect of mobile substitution in the decline of our fixed-line voice business.

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, and revenues from our interconnections with Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009) and Unicom Group. Revenue from our interconnection services decreased by 5.2% from RMB7.91 billion in 2007 to RMB7.50 billion in 2008. 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, PHS SMS, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services decreased by 2.5% from RMB6.76 billion in 2007 to RMB6.59 billion in 2008, mainly due to the decrease in usage of our caller identification 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 22.9% from RMB3.74 billion in 2007 to RMB4.60 billion in 2008, mainly due to the increased demand of leased line services by our government and SME customers.

Managed Data Service and Other Internet-Related Service Revenue. Revenue from our managed data services consists of fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services. Revenue from our managed data services decreased by 19.3% from RMB1.28 billion in 2007 to RMB1.03 billion in 2008. The decrease was primarily due to decrease in usage of traditional DDN and frame relay services as a result of the substitution by new ways of access and our generally decreased effective tariffs. Revenue from other Internet-related services consists of revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from other Internet-related services increased by 15.8% from RMB0.55 billion in 2007 to RMB0.64 billion in 2008 due to the growth in demand by SMEs on dedicated Internet access services.

Others. Other fixed-line related revenue mainly consists of ICT service revenue, upfront installation fees and other miscellaneous revenue items. Other fixed-line related revenue decreased by 15.5% from RMB6.94 billion in 2007 to RMB5.86 billion in 2008. This decrease was mainly due to the decrease in our ICT service revenue as a result of the change in our ICT business strategy. In 2008, we reduced sales of third-party products in connection with the provision of our ICT services, which, despite reducing our direct revenue, helped enhance the profit margin of our ICT services.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 19.0% from RMB0.93 billion in 2007 to RMB1.10 billion in 2008, mainly due to the increase in sales of computers bundled with our fixed-line broadband services in 2008.

Costs and Expenses

In 2008, we experienced upward pressures on costs and expenses brought by various challenges, including changes in the macroeconomic environment, severe natural disasters and our merger and reorganization activities. While stabilizing our operations, we took measures, such as controlling our out-of-pocket expenses, to control our

costs and expenses. Total costs and expenses for our continuing operations in 2008 were RMB140.76 billion, representing an increase of 14.0% from RMB123.45 billion in 2007. Excluding the effects of the non-recurring items, consisting of impairment loss on PHS business-related assets in 2008 and tax refund on reinvestment in subsidiaries and realized loss on changes in fair value of derivative component of the convertible bonds in 2007, our total costs and expenses for our continuing operations in 2008 would have been RMB128.93 billion, representing an increase of 4.9% from RMB122.88 billion in 2007. The 4.9% increase was principally attributable to increases in networks, operations and support expenses, employee benefit expenses and interconnection charges and costs of telecommunications products sold, partially offset by decreases in finance costs, net of interest income.

The table below sets forth the major items of costs and expenses from continuing operations and their respective percentages of the total revenue from continuing operations for the years 2007 and 2008:

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	% of Total	RMB in millions	% of Total
Continuing Operations				
Total revenue (excluding fixed-line upfront connection fees) *	149,170	100.0	148,020	100.0
Costs and expenses	123,446	82.8	140,765	95.1
Interconnection charges	11,214	7.5	12,011	8.1
Depreciation and amortization	47,369	31.8	47,678	32.2
Networks, operations and support expenses	16,022	10.7	16,577	11.2
Employee benefit expenses	17,540	11.8	18,902	12.8
Selling and marketing	17,562	11.8	17,384	11.7
General, administrative and other expenses	13,981	9.4	14,131	9.6
Cost of telecommunications products sold	1,233	0.8	2,067	1.4
Finance costs, net of interest income	2,946	2.0	2,172	1.5
Impairment loss on property, plant and equipment	—	—	11,837	8.0
Realized loss on changes in fair value of derivative component of the convertible bonds	569	0.4	—	—
Other income-net	(4,990)	(3.4)	(1,994)	(1.4)

* 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.

Interconnection Charges. Interconnection charges increased by 7.1% from RMB11.21 billion in 2007 to RMB12.01 billion in 2008, primarily due to an increase in mobile interconnection traffic volume resulting from the increase of total usage of mobile services. The increase in interconnection charges is consistent with the increase of interconnection revenues. Interconnection charges as a percentage of total revenue (excluding fixed-line upfront connection fees) also increased from 7.5% in 2007 to 8.1% in 2008.

Depreciation and Amortization. Depreciation and amortization expenses amounted to RMB47.68 billion in 2008, up by 0.7% from RMB47.37 billion in 2007, and as a percentage of our total revenue (excluding fixed-line upfront connection fees), slightly increased from 31.8% in 2007 to 32.2% in 2008.

Networks, Operations and Support Expenses. Due to various factors, including large-scale expansion of network facilities and base stations and increases in utilities charges and repair and maintenance expenses (mainly resulting from natural disasters and additional network maintenance work during the Beijing Olympics Games period), we incurred networks, operations and support expenses of RMB16.58 billion in 2008, up by 3.5% from RMB16.02 billion in 2007. Networks, operations and support expenses as a percentage of our total revenue (excluding fixed-line upfront connection fees), was 11.2% in 2008, a slight increase from 10.7% in 2007. After our merger with China Netcom, we were able to share the network resources from China Netcom, which resulted in reduced costs for leasing telecommunications networks. Our lease fee for telecommunication network lease was RMB1.16 billion in 2008, down by 5.9% from 2007.

Employee Benefit Expenses. As a result of our compliance with the new Labor Contract Law in China in 2008 and generally improved social average wages in China, our employee insurance premium expenses increased. In addition, we also incurred additional employee benefits-related costs for maintaining the continuity of our personnel during our integration with China Netcom. Our employee benefit expenses increased by 7.8% from RMB17.54 billion in 2007 to RMB18.90 billion in 2008, and as a percentage of our total revenue (excluding fixed-line upfront connection fees), increased from 11.8% in 2007 to 12.8% in 2008.

Selling and Marketing Expenses. In 2008, we continued to strengthen our control on selling and marketing costs and ensure that agency fees paid to our sales agents are strictly in proportion to revenue contribution by the subscribers brought by such agents. In addition, during our restructuring and integration period in 2008, we consolidated our self-owned distribution channels and our sales agent resources to achieve increased synergies. As a result, we enhanced the overall effectiveness of our selling and marketing activities and our selling and marketing expenses decreased by 1.0% from RMB17.56 billion in 2007 to RMB17.38 billion in 2008. As a percentage of our total revenue (excluding fixed-line upfront connection fees), our selling and marketing expenses were 11.7% in 2008, the same level as in 2007.

General, Administrative and Other Expenses. As the loss of our fixed-line subscribers increased in 2008, the delinquencies associated with such loss also increased. As a result, we increased our provision for doubtful debts in 2008 and our general, administrative and other expenses increased by 1.1% from RMB13.98 billion in 2007 to RMB14.13 billion in 2008, and as a percentage of the service revenue slightly increased from 9.4% in 2007 to 9.7% in 2008.

Cost of Telecommunications Products Sold. As a result of a 76.0% increase in revenue from the sale of telecommunications products, we incurred RMB2.07 billion in cost of telecommunications products sold, up by 67.6% from RMB1.23 billion in 2007.

Finance Costs, Net of Interest Income. In 2008, we further strengthened and improved our capital structure by enhancing the centralization of fund management and fund operation. In addition, we made early repayments of interest-bearing debts using the proceeds received from the disposal of the CDMA business. As a result, our finance costs, net of interest income, decreased by 26.3% from RMB2.95 billion in 2007 to RMB2.17 billion in 2008.

Other Income-Net. In 2008, other income-net was RMB1.99 billion, mainly from the net gain on non-monetary asset exchange in connection with our replacement of copper cables in some of our fixed-line network regions with optical fibers. In 2007, we reinvested the undistributed profits into our subsidiaries and were granted a refund on a portion of the taxes previously paid by these subsidiaries amounting to approximately RMB4.00 billion. We recognized this tax refund as “other income” for 2007. Excluding the effect of RMB4.00 billion tax refund, other income-net for 2008 would be up by 101.4% from 2007.

Impairment Loss on the PHS Business-Related Assets

Upon the completion of our merger with China Netcom, we reconsidered our strategy relating to the PHS business. As we expected that the economic performance of the PHS business would deteriorate significantly, we prepared an updated analysis and forecast accordingly to determine if there had been an impairment of assets. After considering the expected significant decline in revenue and profitability in 2009 and onwards, we conducted an impairment test for the PHS business related assets. See “D. Risk Factors — Risks Relating to Our Business — If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers, our financial condition and results of operations may be adversely affected.” under Item 3. The impaired PHS business related assets were written down to their recoverable value, which was determined to be based on their estimated value in use. Value in use was determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS business related assets. In estimating the future net cash flows, we made key assumptions and estimates on the appropriate discount rate adopted, the period covered by the cash flow forecast, the future loss of customers and the expected average revenue per subscriber.

These assumptions and estimates were made after considering the historical trends, the prevailing market trends and the physical conditions of the PHS business related equipment. Based on the above, we recognized an impairment loss on PHS business related assets of approximately RMB11.84 billion for the year ended December 31,

2008 and nil for the year ended December 31, 2007.

Income From Continuing Operations Before Income Tax

In 2008, our income from continuing operations before income tax was RMB8.14 billion, down by 70.1% from RMB27.24 billion in 2007. After excluding fixed-line upfront connection fees for 2007 and 2008 and non-recurring items, consisting of impairment loss on PHS business-related assets of RMB11.84 billion in 2008, tax refund on reinvestment in subsidiaries of RMB4.00 billion in 2007 and realized loss on changes in fair value of derivative component of the convertible bonds of RMB0.57 billion in 2007, our income from continuing operations before income tax would be RMB19.09 billion in 2008, down by 14.3% from 2007.

In 2008, our income before income tax from the discontinued CDMA services was RMB1.91 billion.

Income Tax

Our income tax for continuing operations was RMB1.80 billion in 2008, down by 74.6% from RMB7.08 billion in 2007. Our effective tax rate for continuing operations in 2007 and 2008 was 26.0% and 22.1%, respectively. Excluding fixed-line upfront connection fees for 2007 and 2008 and non-recurring items, consisting of impairment loss on PHS business related assets in 2008, the tax refund on reinvestment in subsidiaries in 2007 and the realized loss on changes in fair value of the derivative component of the convertible bonds in 2007, our effective tax rate in 2007 and 2008 would be 31.8% and 24.9%, respectively.

The decrease in our income tax was mainly due to our reduced profit before income tax. In addition, due to a downward adjustment of the enterprise income tax from 33% to 25% pursuant to the PRC Enterprise Income Tax Law which became effective on January 1, 2008, our income tax for 2008 also decreased.

Income from Continuing Operations

Our income from continuing operations was RMB6.34 billion in 2008, as compared to RMB20.16 billion in 2007. Excluding fixed-line upfront connection fees for 2007 and 2008 and non-recurring items, consisting of impairment loss on PHS business related assets of RMB11.84 billion in 2008, tax refund on reinvestment in subsidiaries of RMB4.00 billion in 2007 and realized loss on changes in fair value of derivative component of the convertible bonds of RMB0.57 billion in 2007, our income from continuing operations would be RMB17.29 billion in 2008, up by 13.7% from RMB15.21 billion in 2007.

Income from Discontinued Operations

Our income from discontinued operations was RMB1.44 billion in 2008. We also had a gain on the disposal of discontinued operations of RMB26.14 billion in 2008.

Net Income for the Year

In 2008, our net income (including the income from continuing operations and discontinued operations) reached RMB33.91 billion, up by 58.2% from RMB21.44 billion in 2007. Our basic earnings per share was RMB1.43 in 2008, up by 53.8% from 2007. Excluding fixed-line upfront connection fees and non-recurring items, consisting of impairment loss on PHS business-related assets in 2008, tax refund on reinvestments in subsidiaries and realized loss on changes in fair value of derivative component of the convertible bonds in 2007, our basic earnings per share would be RMB1.89, up by 103.3% from 2007.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2008, we had RMB9.24 billion of cash and cash equivalents, as compared with RMB11.98 billion as of December 31, 2007. As of December 31, 2008, we had RMB0.24 billion of short-term bank

deposits, as compared with RMB0.74 billion as of December 31, 2007. As of the end of 2008, we had a working capital deficit (current assets minus current liabilities) of RMB89.10 billion, decreasing by 3.0% from the working capital deficit of RMB91.87 billion as of the end of 2007. The decrease in working capital deficit in 2008 primarily resulted from our repayment of interest-bearing debt using the proceeds from the disposal of the CDMA business.

A global financial crisis that unfolded in 2008 and has continued during 2009 has widely and adversely affected the financing markets of a number of countries where the banks and other financial institutions are reluctant to lend and impose stricter terms in their lending. Changes in the macroeconomic environment arising from the current global financial crisis have had an adverse impact on economic activity in the PRC. However, under a series of economic stimulus packages launched by the PRC Government, we, due to our enterprise nature and our good credit records with PRC banks, generally have not experienced and do not expect to experience in the foreseeable future significant difficulties in obtaining bank financing in the PRC. As of December 31, 2008, the unutilized portion of our bank facilities was approximately RMB92.0 billion. Meanwhile, we will continue to optimize our fund raising strategy from short, medium and long-term perspectives and to pursue opportunities in the current capital market, to take advantage of the low interest rates. Therefore, we believe that we will be able to fund our anticipated capital and liquidity needs with our access to debt and equity financing, in particular bank financing in the PRC, and net cash inflows from our operations.

The following table sets forth cash inflows and outflows in 2007 and 2008.

	For the Year Ended December 31,	
	2007	2008
	RMB in millions	RMB in millions
Net cash inflow from operating activities of continuing operations	65,256	56,674
Net cash outflow from investing activities of continuing operations	(47,641)	(54,490)
Net cash outflow from financing activities of continuing operations	(29,805)	(35,070)
Net cash outflow from continuing operations	(12,190)	(32,886)
Net cash inflow from discontinued operations	4,303	30,145
Net decrease in cash and cash equivalents	(7,887)	(2,741)

Our net cash inflow from operating activities of continuing operations decreased by 13.2% from RMB65.26 billion in 2007 to RMB56.67 billion in 2008. The decrease in net cash inflow from operating activities was mainly due to our settlement of payables.

Our net cash outflow from investing activities of continuing operations was RMB54.49 billion in 2008, up by 14.4% from RMB47.64 billion in 2007, mainly due to our increased investment in our GSM network expansion and upgrade and payment for the purchase of businesses under common control.

Our net cash outflow from financing activities increased by 17.7% from RMB29.81 billion in 2007 to RMB35.07 billion in 2008, resulting primarily from the proceeds from our commercial paper, bank loans and corporate bonds in 2008 decreasing by RMB22.04 billion, while our repayment of commercial paper, bank loans, corporate bonds and related party loans in 2008 decreasing by RMB15.19 billion and payment of prior year distribution in 2008 decreasing by RMB1.08 billion.

Our net cash inflow from discontinued operations increased by 600.6% from RMB4.30 billion in 2007 to RMB30.15 billion in 2008, mainly resulting from the proceeds from the disposal of our CDMA business.

Indebtedness and Capital Structure

The following table sets forth the amount of cash, assets, short-term and long-term debt and equity as well as debt-to-capitalization and debt-to-equity ratios as of the end of 2007 and 2008.

	As of December 31,	
	2007	2008
	(RMB in millions, except percentages)	
Cash and cash equivalent and short-term bank deposits	12,714	9,476

	As of December 31,	
	2007	2008
	(RMB in millions, except percentages)	
Total assets	334,087	344,924
Short-term debt	47,390	21,996
Short-term bank loans	11,850	10,780
Short-term commercial paper	20,000	10,000
Current portion of long-term bank loans	7,411	1,216
Amounts due to related parties (interest-bearing)	8,129	—
Long-term debt	18,086	7,997
Corporate bonds	2,000	7,000
Non current portion of long-term bank loans	16,086	997
Shareholders' equity	178,516	206,710
Debt-to-capitalization ratio ⁽¹⁾	26.8%	12.7%
Debt-to-equity ratio ⁽²⁾	36.7%	14.5%

(1) Debt-to-capitalization ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(long-term interest-bearing debt + short-term interest-bearing debt + shareholders' equity).

(2) Debt-to-equity ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/shareholders' equity.

Our debt-to-capitalization ratio was 12.7% at the end of 2008, compared to 26.8% at the end of 2007. Our debt-to-equity ratio was 14.5% at the end of 2008, compared to 36.7% at the end of 2007. The sum of our long-term and short-term interest-bearing debt exceeds the amount of our cash and cash equivalents and short-term bank deposits by RMB20.52 billion as of December 31, 2008, while the sum of our long-term and short-term interest-bearing debt exceeded the amount of our cash and cash equivalents and short-term bank deposits by RMB52.76 billion as of December 31, 2007. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs.

Our outstanding short-term and long-term bank loans, denominated in RMB, U.S. dollar, Japanese Yen and Euro, was RMB12.99 billion at the end of 2008, compared to RMB35.35 billion at the end of 2007. The decrease in 2008 was primarily due to our repayment of prior bank loans with proceeds from the disposal of the CDMA business. Our long-term bank loans bear floating interest rates that range from 4.86% to 6.8% or from U.S. dollar London Inter-Bank Offered Rate, or LIBOR, plus 0.35% to 0.44% per annum in 2008 with maturity through 2010. The loan agreements do not include financial performance or other covenants which may materially restrict our operations or those of CUCL, our principal operating subsidiary in China. As of December 31, 2008, no short-term bank loans or long-term bank loans were guaranteed by Unicom Group.

Our long-term and short-term debts have declined in recent years. In order to further rationalize our debt structure and reduce our interest expense, we may continue to finance a portion of our business operations and capital expenditures through short-term borrowings. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations and obtain adequate external financing to meet our debt service obligations and planned capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including, but not limited to, changes in telecommunications tariffs, decreased demand for our telecommunications services and further intensified competition. Our ability to obtain external financing also depends on numerous factors, including, but not limited to, our financial condition and creditworthiness as well as our relationship with lenders. See "D. Risk Factors — Risks Relating to Our Business — If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected" under Item 3.

In September 2003, we entered into a US\$700 million term loan facility with 13 financial institutions, which consisted of three tranches: a three-year US\$200 million tranche, with an interest rate of 0.28% over the US\$ LIBOR per annum, a five-year US\$300 million tranche, with an interest rate of 0.35% over the US\$ LIBOR per annum, and a seven-year US\$200 million tranche, with an interest rate of 0.44% over the US\$ LIBOR per annum. In October 2003, our company and CUCL entered into an agreement to re-lend such funds to CUCL with similar terms to finance the network construction of CUCL. We fully repaid the US\$200 million 3-year tranche in 2006, the US\$300 million 5-year tranche in September 2008 and the US\$200 million 7-year tranche in November 2008 after obtaining consent for prepayment from the relevant lenders.

On June 8, 2007, we issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a guarantee issued by Bank of China Limited. On September 3, 2008, we issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a guarantee issued by State Grid Corporation of China.

In addition, prior to our merger with China Netcom, China Netcom's wholly-owned subsidiary, CNC China (which merged with, and was absorbed by, our wholly-owned subsidiary, CUCL, in January 2009), issued two tranches of RMB10 billion unsecured commercial paper in the PRC capital market with repayment periods of 365 days and 270 days on April 30, 2007 and September 18, 2007, respectively. The effective interest rates were 3.34% and 3.93% per annum, respectively. These commercial papers were fully repaid on May 9, 2008 and June 16, 2008, respectively. On October 6, 2008, CNC China also issued RMB10 billion unsecured commercial paper in the PRC capital market with prepayment period of 365 days. The effective interest rate is 4.47% per annum.

Contractual Obligations and Commercial Commitments

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2008.

	Total	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
Short-term bank loans ^{(1)*}	11,013	11,013	—	—	—
Short-term commercial paper ^{(2)*}	10,447	10,447	—	—	—
Long-term bank loans ^{(3)*}	2,357	1,299	215	208	635
Corporate bonds ^{(4)*}	9,134	355	709	5,710	2,360
Other obligations	2,804	510	727	701	866
Capital commitments ⁽⁵⁾	13,014	11,181	1,663	32	138
Operating leases commitments ⁽⁵⁾	8,356	1,828	2,754	1,817	1,957
Total obligations	<u>57,125</u>	<u>36,633</u>	<u>6,068</u>	<u>8,468</u>	<u>5,956</u>

* interest included

(1) See Note 25 "Short-Term Bank Loans — Group" to our consolidated financial statements.

(2) See Note 24 "Short-Term Commercial Paper — Group" to our consolidated financial statements.

(3) See Note 19 "Long-Term Bank Loans" to our consolidated financial statements.

(4) See Note 20 "Corporate Bonds" to our consolidated financial statements.

(5) See Note 38 "Contingencies and Commitments" to our consolidated financial statements.

Off-Balance Sheet Arrangements

As of December 31, 2008, we did not have any off-balance sheet arrangements.

In January 2009, we completed our acquisitions, through CUCL, of certain telecommunications business and assets, 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, from Unicom Group and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009). The total consideration for the above acquisitions is RMB6.43 billion, payable in cash. In addition, CUCL entered into a 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 21 provinces in southern China, which are held by Unicom New Horizon and are necessary for the operation of the fixed-line business in southern China. The lease became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China. The annual lease fee payable by CUCL for the years ending December 31, 2009 and 2010 is RMB2.0 billion and RMB2.2 billion, respectively. See "A. History and Development of the Company — Recent Developments — 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.

Capital Expenditures

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	For the Years Ended December 31,			
	2008		2009	
	(RMB in billions)	As percentage	(RMB in billions)	As percentage
3G mobile	—	—	38.70	35.2%
GSM mobile ⁽¹⁾	32.95	46.7%	23.70	21.5%
Fixed-line broadband and data services	9.05	12.8%	18.00	16.4%
Fixed-line business	0.73	1.0%	0.70	0.6%
Innovation and value-added platform	4.13	5.9%	3.00	2.7%
IT system	2.40	3.4%	4.00	3.6%
Infrastructure and transmission network	18.18	25.8%	19.70	17.9%
Others ⁽²⁾	3.05	4.4%	2.20	2.1%
Total	70.49	100.0%	110.00	100.0%

(1) Including the capital expenditure attributable to the initial preparation relating to the development of the 3G business.

(2) Other expenditures consist of procurement of miscellaneous assets, equipment and spare parts.

Our capital expenditure totaled RMB70.49 billion in 2008, which mainly consisted of investment in the GSM network and fixed-line broadband and data and transmission network infrastructure. Under our new development strategies, capital expenditure attributable to the GSM mobile business amounted to RMB32.95 billion in 2008, which included expenditure related to our initial preparation relating to 3G business. Capital expenditure attributable to fixed-line broadband and data business was RMB9.05 billion. Capital expenditure attributable to infrastructure and transmission networks was RMB18.18 billion.

Our projected capital expenditure for 2009 is estimated to be approximately RMB110.0 billion, a significant portion of which will be used for investments in our 3G business, GSM mobile business, fixed-line broadband and data business and infrastructure and transmission networks.

We expect to fund our capital expenditure needs through a combination of cash generated from operating activities, remaining proceeds from the disposal of our CDMA business, granted and unused banking facilities and other available financing sources. See “D. Risk Factors — Risks Relating to Our Business — If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected.” under Item 3.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information concerning our current⁽¹⁾ directors and executive officers.

Name	Age	Position
Chang Xiaobing	52	Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin ⁽²⁾	45	Executive Director and President
Zuo Xunsheng ⁽³⁾	58	Executive Director and Senior Vice President
Tong Jilu	51	Executive Director and Chief Financial Officer
Cesareo Alierta Izuel ⁽⁴⁾	64	Non-Executive Director
Jung Man Won ⁽⁵⁾	57	Non-Executive Director
Wu Jinglian	79	Independent Non-Executive Director

<u>Name</u>	<u>Age</u>	<u>Position</u>
Linus Cheung Wing Lam	61	Independent Non-Executive Director
Wong Wai Ming	51	Independent Non-Executive Director
John Lawson Thornton ⁽⁶⁾	55	Independent Non-Executive Director
Timpson Chung Shui Ming ⁽⁷⁾	57	Independent Non-Executive Director
Li Jianguo	55	Senior Vice President
Pei Aihua	58	Senior Vice President
Zhao Jidong	58	Senior Vice President
Li Fushen	46	Senior Vice President
Li Gang	51	Senior Vice President
Zhang Junan	52	Senior Vice President
Jiang Zhengxin	52	Senior Vice President

- (1) Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Li Zhengmao and Mr. Miao Jianhua resigned as Executive Directors of our company on May 23, 2008. Mr. Li Gang and Mr. Zhang Junan resigned as Executive Directors of our company on October 15, 2008. Mr. Lu Jianguo and Mr. Lee Suk Hwan resigned as Non-Executive Directors of our company on October 15, 2008. Mr. Kim Shin Bae was appointed as a Non-Executive Director of our company on October 15, 2008 and resigned on January 22, 2009. Mr. Shan Weijian resigned as an Independent Non-Executive Director of our company on October 15, 2008.
- (2) Mr. Lu Yimin was appointed as an Executive Director of our company in October 2008.
- (3) Mr. Zuo Xunsheng was appointed as an Executive Director of our company in October 2008.
- (4) Mr. Cesareo Alierta Izuel was appointed as a Non-Executive Director of our company in October 2008.
- (5) Mr. Jung Man Won was appointed as a Non-Executive Director of our company in January 2009.
- (6) Mr. John Lawson Thornton was appointed as an Independent non-Executive Director of our company in October 2008.
- (7) Mr. Timpson Chung Shui Ming was appointed as an Independent Non-Executive Director of our company in October 2008.

Mr. Chang Xiaobing was appointed in December 2004 as an Executive Director, Chairman and Chief Executive Officer of our company. Mr. Chang, a professor level senior engineer, graduated in 1982 from the Nanjing Institute of Posts and Telecommunications with a bachelor's degree in telecommunications engineering and received a master's degree in business administration from Tsinghua University in 2001. He received a doctor's degree in business administration from the Hong Kong Polytechnic University in 2005. Prior to joining China United Telecommunications Corporation, Mr. Chang served as a Deputy Director of the Nanjing Municipal Posts and Telecommunications Bureau of Jiangsu Province and a Deputy Director General of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications and a Deputy Director General and Director General of the Department of Telecommunications Administration of the former Ministry of Information Industry, as well as Vice President of China Telecommunications Corporation. Mr. Chang was appointed the Chairman of China United Telecommunications Corporation in November 2004. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited (Unicom Group). He serves as the Chairman of Unicom Group, China United Telecommunications Corporation Limited (A Share Company) and China United Network Communications Corporation Limited (CUCL), respectively. Mr. Chang has extensive operational and managerial experience in the telecommunications industry.

Mr. Lu Yimin was appointed as an Executive Director of our company in October 2008 and President of our company in February 2009. Mr. Lu, a professor level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor's degree in computer science in 1985 and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University. Mr. Lu joined China Network Communications Group Corporation (Netcom Group) in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited (listed on the HKSE with an American Depositary Receipt trading on the Pink Sheets' OTC Market in the U.S.) since May 2008. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of the A Share Company and a Director and President of CUCL. Mr. Lu

has extensive experience in government administration and business management.

Mr. Zuo Xunsheng was appointed as an Executive Director of our company in October 2008 and a Senior Vice President of our company in February 2009. Mr. Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr. Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, Mr. Zuo served as Director of the former Posts and Telecommunications Bureau of Shandong Province. From May 2000 to April 2002, Mr. Zuo was President of the former Shandong Telecommunications Company. Mr. Zuo joined Netcom Group as Vice President in April 2002, and served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited (China Netcom) since July 2004, Chief Operating Officer of China Netcom since December 2005, Executive Director and Chief Executive Officer of China Netcom since May 2006 and Chairman of China Netcom since May 2008. In addition, Mr. Zuo has served as a Non-Executive Director and Deputy Chairman of PCCW Limited (listed on the HKSE with an American Depositary Receipt trading on the Pink Sheets' OTC Market in the U.S.) since July 2007. Mr. Zuo is Vice Chairman and Vice President of Unicom Group. Mr. Zuo is also a Director of A Share Company and a Director and Senior Vice President of CUCL. Mr. Zuo is well experienced in telecommunications operations and has rich management experience.

Mr. Tong Jilu was appointed in February 2004 as an Executive Director and Chief Financial Officer of our company. Mr. Tong graduated in 1987 from the Department of Economic Management at the Beijing University of Posts and Telecommunications. He received a master's degree in business administration from the Australian National University in 2002. Mr. Tong was Deputy Director General of the Posts and Telecommunications Administration of Liaoning Province, as well as the Posts Office of Liaoning Province. Mr. Tong joined China United Telecommunications Corporation in July 2000. He served first as Chief Accountant and later a Vice President and, from September 2003, a Director of China United Telecommunications Corporation. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited. Mr. Tong now serves as a Director, Vice President and Chief Accountant of Unicom Group. He is also a Director of the A Share Company and a Director and Senior Vice President of CUCL. Mr. Tong has extensive experience in the management of telecommunications companies and finance management of listed companies.

Mr. Cesareo Alierta Izuel was appointed in October 2008 as a Non-Executive Director of our company. Mr. Alierta has been a member of the Board of Directors of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica S.A. since July 2000. Mr. Alierta is a member of the Board of Directors of Telecom Italia (listed on the stock exchange of Milan). He is also a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts' Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. In September 2005, Mr. Alierta received "The Global Spanish Entrepreneur" award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree of business administration at the University of Columbia (New York) in 1970.

Mr. Jung Man Won was appointed in January 2009 as a Non-Executive Director of our company. Mr. Jung holds a master's degree of business administration from New York University, USA. From December 1976 to April 1978, he served as a Certified Public Accountant in Korea. From May 1978 to March 1993, he served first as a Deputy Director and later as a Director of the Ministry of Energy and Resources of Korea. From March 1993 to May 1994, he served as a Director of the European Trade Department of the Korean Ministry of Commerce and Industry. Mr. Jung joined the Corporate Planning Office of the SK Group in July 1994. He was credited with the successful implementation of the OK Cashbag business while serving as the head of the Customer Business Development Division of SK Energy Co., Ltd. (previously known as SK Corporation and Yukong Ltd.). Mr. Jung led the Mobile Internet Business Division of SKT (listed on the Korea Stock Exchange and NYSE) as Vice President for two years starting from December 2000. Mr. Jung served as the CEO of SK Networks Co., Ltd. since September 2003, during which he successfully guided the company to its present position within a short period of time. In January 2009, Mr. Jung rejoined SKT as President and CEO.

Mr. Wu Jinglian was appointed in April 2000 as an Independent Non-Executive Director of our company. Mr. Wu is a senior researcher at the Development Research Center of the State Council (DRC), and a professor at the Graduate School of the Chinese Academy of Social Sciences and China Europe International Business School. Mr. Wu graduated from Fudan University and received honorary doctoral degrees in Social Science from the Hong Kong Baptist University and the University of Hong Kong in 2000 and 2005, respectively. Mr. Wu was previously an Executive Director of the DRC and Deputy Director of the Programming Office for Economic Reform of the State Council. Mr. Wu has been a visiting scholar at Yale University, a visiting professor at the Asia-Pacific Research Center of Stanford University and a visiting researcher at the Massachusetts Institute of Technology.

Mr. Linus Cheung Wing Lam was appointed in May 2004 as an Independent Non-Executive Director of our company. Mr. Cheung is Chairman of Asia Television Limited. Besides, Mr. Cheung is an independent non-executive director of Taikang Life Insurance Company Limited and a non-executive director of HKR International Limited (listed on the HKSE). Mr. Cheung also serves as Chairman of the University of Hong Kong School of Professional and Continuing Education, President of the Chartered Institute of Marketing (Hong Kong Region) and Adjunct Professor of the Chinese University of Hong Kong. Before this, Mr. Cheung was Deputy Chairman of PCCW Limited. Prior to the merger of Pacific Century Cyberworks Limited and Cable & Wireless HKT Limited, or Hongkong Telecom, Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung also worked at Cathay Pacific Airways for 23 years, before departing as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor's degree in social science and a diploma in management studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

Mr. Wong Wai Ming was appointed in January 2006 as an Independent Non-Executive Director of our company. Mr. Wong is Senior Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the HKSE and the NYSE). He is an Independent Non-Executive Director of I.T Limited (listed on the HKSE). Besides, Mr. Wong is Non-Executive Director of Linmark Group and Kingsoft Corporation Limited (both listed on the HKSE). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was an Chief Executive Officer and Executive Director of Roly International Holdings Ltd and an Executive Director of Linmark Group. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor's degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.

Mr. John Lawson Thornton was appointed in October 2008 as an Independent Non-Executive Director of our company. Mr. Thornton is currently a Professor and Director of the Global Leadership Program at Tsinghua University in Beijing. He is a Director and Non-Executive Chairman of HSBC North America Holdings Inc., as well as a Director of HSBC Holdings plc (listed on the HKSE, London Stock Exchange, NYSE, Paris Stock Exchange and Bermuda Stock Exchange), Ford Motor Company (listed on the NYSE), Intel Corporation (listed on NASDAQ Stock Exchange), News Corporation, Inc. (listed on the NYSE and the Australian Stock Exchange), the National Committee on United States-China Relations and the Financial Services Volunteer Corps, Inc. He is also a Chairman of the Brookings Institution Board of Trustees; President of the Hotchkiss School Board of Trustees; a Trustee of Asia Society, China Institute, China Foreign Affairs University and the United World College of East Africa Trust; an Advisory Board Member of Tsinghua University School of Economics and Management; and an International Advisory Committee member of China Reform Forum, the China Securities Regulatory Commission, Eisenhower Fellowships and Morehouse College. He served as an Independent Non-Executive Director of China Netcom from October 2004 to November 2008 and as an Independent Non-Executive Director of Industrial and Commercial Bank of China from October 2005 to November 2008. Mr. Thornton retired in July 2003 as President, Co-Chief Operating Officer and a Director of The Goldman Sachs Group, Inc. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and an M.P.P.M. from the Yale School of Management in 1980.

Mr. Timpson Chung Shui Ming was appointed in October 2008 as an Independent Non-Executive Director of our company. Mr. Chung is currently a member of the National Committee of the 11th Chinese People's Political Consultative Conference. Mr. Chung is also an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited and Nine Dragons Paper (Holdings) Limited (all listed on the

HKSE). From October 2004 to November 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was a Director of Hantec Investment Holdings Limited, the Chief Executive Officer of Shimao China Holdings Limited, the Chairman of China Business of Jardine Fleming Holdings Limited, the Deputy Chief Executive Officer of BOC International Limited, the Independent Non-Executive Director of Tai Shing International (Holdings) Limited, and the Chairman of the Council of the City University of Hong Kong. He was also the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority and a member of the Disaster Relief Fund Advisory Committee. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree of business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Ms. Li Jianguo was appointed as Senior Vice President of our company in February 2009. Ms. Li graduated from the Xiangtan University with a bachelor's degree in Chemical Engineering in 1982 and received a master's degree in business administration from the Hong Kong Polytechnic University in 2006. Ms. Li held various senior positions in China United Telecommunications Corporation, including serving as a director and chairperson of the Labour Union. Ms. Li also served as the Chairperson of the Board of Supervisors of A Shares Company and Executive Director of our company. Ms. Li served as Senior Management in Netcom Group since July 2007. She has also served as Executive Director of China Netcom since July 2007. Ms. Li holds a senior managerial position in Unicom Group. Ms. Li is a member of the Supervisory Board of A Share Company, as well as Director and Senior Vice President of CUCL. Ms. Li held leading positions in various enterprises, local governments and state ministries and committees for a long period of time, and she has extensive working and management experiences in government, authorities and enterprises.

Mr. Pei Aihua was appointed as Senior Vice President of our company in February 2009. Mr. Pei is a senior engineer of professor level. He graduated from Beijing University of Posts and Telecommunications in microwave technology in 1976 and Changchun Optical Precision Machinery College with a master's degree in electrical engineering in 1993. He received a master's degree in information and communication management jointly organized by the Management School of Fudan University and the Norway Management School, and a doctor degree of management from the Hong Kong Polytechnic University. Mr. Pei was Deputy Director of the former China General Bureau of Posts and Telecommunications from June 1997 to July 2000, General Manager of Sichuan Provincial Telecommunications Company from July 2000 to July 2001, and Deputy General Manager of the former Beijing Telecommunications Company from July 2001 to April 2002. He has served as Deputy General Manager of Netcom Group since April 2002. He has also served as Senior Vice President of China Netcom since July 2004. Mr. Pei is a Deputy General Manager of Unicom Group, and Director and Senior Vice President of CUCL. Mr. Pei worked in the government and the telecommunications industry in China for a long period of time and has extensive management experience.

Mr. Zhao Jidong was appointed as Senior Vice President of our company in February 2009. He graduated from Fudan University with a bachelor's degree in English in 1975 and obtained a master's degree in information and communication management jointly organized by the Management School of Fudan University and the Norway Management School in 2002. From November 1994 to May 2000, Mr. Zhao served as the Deputy Director and Director of the former Beijing Telecommunications Bureau. He served as General Manager of the former Beijing Telecommunications Company from May 2000 to July 2002, and General Manager of Beijing Communications Company from July 2002 to July 2003. He has served as Deputy General Manager of Netcom Group since July 2003. He has also served as Senior Vice President of China Netcom since July 2004. Mr. Zhao is a Deputy General Manager of Unicom Group, and Director and Senior Vice President of CUCL. Mr. Zhao has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Li Fushen was appointed as Senior Vice President of our company in February 2009. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master's degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has

served as Chief Financial Officer of China Netcom since September 2005 and has served as Executive Director of China Netcom since January 2007. From December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. In addition, Mr. Li has served as a Non-executive Director of PCCW Limited since July 2007. Mr. Li is a Deputy General Manager of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Li Gang was appointed as Vice President of our company in April 2006 and Senior Vice President of our company in February 2009. Mr. Li graduated from Beijing University of Posts and Telecommunications in 1985 and received a master's degree in business administration from the Department of Advanced Business Administration of Jinan University in 2004. Mr. Li previously served as a Deputy Director of the Telecommunications Division, a Deputy Director of the Telecommunications Department, a Deputy Director of the Rural Telephone Bureau, a Deputy Director and a Director of the Telecommunications Operation and Maintenance Department of the Posts and Telecommunications Administration Bureau in Guangdong Province and as a Director of the Mobile Communication Bureau in Guangdong Province. From 1999 to 2005, he served as the Deputy Chairman, General Manager and Chairman of Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From 2000 to 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr. Li joined China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited. From April 2006 to October 2008, Mr. Li served as an Executive Director of our company. Mr. Li is a Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL, Chairman of New Guoxin, Chairman of Unicom Vsens and Chairman of Unisk (Beijing) Information Technology Co. Limited. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Zhang Junan was appointed as Vice President of our company in April 2006 and Senior Vice President of our company in February 2009. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982. He received a master's degree in business administration from the Australian National University in 2002 and a doctor's degree in business administration from the Hong Kong Polytechnic University in 2008. He previously served as a Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company and the Chairman and General Manager of the Anhui Provincial Telecommunications Co., Limited. Mr. Zhang joined the China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited. From April 2006 to October 2008, Mr. Zhang served as the Executive Director of our company. In addition, Mr. Zhang serves as a non-executive director of China Communications Services Corporation Limited. Mr. Zhang also serves as Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL, as well as Executive Director and General Manager of China Unicom Mobile Network Company Limited. Mr. Zhang has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Jiang Zhengxin was appointed as Senior Vice President of our company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor's degree of radio engineering from Beijing University of Posts and Telecommunications in 1982, a master's degree of business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March 2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL, as well as Chairman of Zhong Rong Information Service Limited Corporation. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

B. Compensation

The aggregate compensation and other benefits paid by us to our directors and executive officers as a group in 2008 was approximately RMB14.44 million, while retirement benefits paid by us were approximately RMB125,000. Each of our executive directors and executive officers participated in a bonus scheme with us that ties the amount of bonus he or she will receive at the end of a year to our operating results of the year and his or her job performance. Some of our directors also hold options to purchase shares in our company. See “E. Share Ownership” below for detailed descriptions of our share option schemes and options granted to our directors and executive officers as well as compensation for the year 2008.

C. Board Practices

General

Pursuant to our articles of association, at each annual general meeting, one-third of our directors retire from office by rotation. The retiring Directors are eligible for re-election. The Board may at any time appoint a new director to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreements, except certain statutory compensation. The following table sets forth certain information concerning our current directors and former directors who served as directors in 2008.

<u>Name</u>	<u>Appointment Date</u>	<u>Re-appointment Date</u>	<u>Resignation Date</u>
Current Directors			
Chang Xiaobing	December 21, 2004	May 12, 2006 and May 26, 2009	—
Liu Yimin	October 15, 2008	May 26, 2009	—
Zuo Xunsheng	October 15, 2008	May 26, 2009	—
Tong Jilu	February 1, 2004	May 12, 2004 May 12, 2006 and May 16, 2008	—
Cesareo Alierta Izuel	October 15, 2008	May 26, 2009	—
Jung Man Won	January 22, 2009	May 26, 2009	—
Wu Jinglian	April 20, 2000	May 13, 2002, May 12, 2004, May 12, 2005 and May 11, 2007	—
Linus Cheung Wing Lam	May 12, 2004	May 12, 2006 and May 16, 2008	—
Wong Wai Ming	January 19, 2006	May 12, 2006 and May 26, 2009	—
John Lawson Thornton	October 15, 2008	May 26, 2009	—
Timpson Chung Shui Ming	October 15, 2008	May 26, 2009	—
Former Directors			
Shang Bing	November 5, 2004	May 12, 2005 and May 11, 2007	May 23, 2008
Yang Xiaowei	April 1, 2006	May 12, 2006 and May 11, 2007	May 23, 2008
Li Zhengmao	April 1, 2006	May 12, 2006 and May 16, 2008	May 23, 2008
Miao Jianhua	July 12, 2007	May 16, 2008	May 23, 2008
Li Gang	April 1, 2006	May 12, 2006 and May 16, 2008	October 15, 2008
Zhang Junan	April 1, 2006	May 12, 2006	October 15, 2008
Kim Shin Bae	October 15, 2008	—	January 22, 2009
Lu Jianguo	April 1, 2006	May 12, 2006	October 15, 2008
Lee Suk Hwan	October 23, 2007	May 16, 2008	October 15, 2008
Shan Weijian	May 12, 2003	May 12, 2005 and May 11, 2007	October 15, 2008

Audit Committee

The audit committee reviews and supervises our financial reporting process and internal financial controls. The duties of the audit committee include, among others:

- considering and approving the appointment, resignation and removal of our external auditor and the auditor's fees;
- reviewing our interim and annual financial statements and disclosures before submission to the board of directors;
- discussing with the auditor any problems and reservations arising from the review of the interim and the audit of annual financial statements;
- reviewing any correspondence from the auditor to our management and the responses of our management;
- reviewing the relevant reports concerning our internal controls and procedures;
- discussing with our management our internal control system to ensure that our management discharge their duties to have an effective internal control system in place;
- pre-approving the audit and non-audit services to be provided by the external auditor, and determining whether any non-audit services would affect the independence of the auditor;
- discussing with our management the timing and procedures for the rotation of the partner of the auditing firm responsible for the audit of our company and the partner responsible for the review of audit-related documents;
- supervising the internal audit department, which will directly report to the committee; and
- having the right to approve the appointment or removal of the head of internal audit department.

As of May 31, 2009, the members of the audit committee are Mr. Wong Wai Ming (Chairman of the audit committee), Mr. Wu Jinglian, Mr. Linus Cheung Wing Lam, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming.

Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of share options and other matters relating to compensation. In particular, the remuneration committee makes recommendations to the Board on directors' compensation. The primary duties of the remuneration committee are to make recommendations to the Board regarding the remuneration structure of the executive directors and senior management and to determine specific remuneration packages for the executive directors and senior management on behalf of the Board. The remuneration committee is also responsible for operating our employee share option scheme and any other incentive scheme as they apply to the executive directors, including determining the granting of options to executive directors. As of May 31, 2009, the members of the remuneration committee are Mr. Wu Jinglian (Chairman of the remuneration committee), Mr. Linus Cheung Wing Lam, Mr. Wong Wai Ming, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming.

D. Employees

As of December 31, 2006, 2007 and 2008, we had 194,134, 199,019 and 204,615 employees, respectively.

The employees as of December 31, 2008 are classified by function as follows:

<u>By Function</u>	<u>Number of Employees</u>	<u>By Business Segment</u>	<u>Number of Employees</u>
Management and administration	35,154	GSM mobile	53,949
Other general administration	16,513	Fixed-Line	150,666
Marketing and sales	82,142		
Technical, engineering and network maintenance	60,057		
Retail and customer service	10,488	Total	204,615
General support	261		
Total	204,615		

As of December 31, 2008, we also employed approximately 109,206 temporary employees.

In connection with our merger with China Netcom, 150,666 employees transferred to our company from China Netcom. In addition, as a result of the disposal of our CDMA business, 19,480 employees were transferred to China Telecom. See “A. History and Development of the Company — Sale of CDMA Business, Merger with China Netcom and Related Transactions” under Item 4.

E. Share Ownership

As of May 31, 2009, our directors and executive officers who own shares in our company are listed as follows:

<u>Name</u>	<u>Capacity and Nature</u>	<u>Ordinary Shares Held</u>	<u>Percentage of Total Issued Shares</u>
Timpon Chung Shui Ming	Beneficial Owner (<i>Personal</i>)	6,000	0.0000%

Apart from those disclosed herein, as of May 31, 2009, our other directors and executive officers as a group do not own any shares in our company.

As of May 31, 2009, our directors and executive officers as a group hold options for 3,458,894 shares, or approximately 0.015% of our issued and outstanding share capital, including the following options granted under our pre-global offering share option scheme, share option scheme, and special purpose share option scheme:

<u>Name</u>	<u>Capacity and Nature</u>	<u>Number of Shares Covered⁽¹⁾</u>	<u>Expiration Date</u>	<u>Exercise Price</u>	<u>Consideration Paid</u>	<u>Compensation for 2008 (RMB in thousand)</u>
Directors						
Chang Xiaobing	Beneficial Owner (<i>Personal</i>)	526,000	December 20, 2010	HK\$6.20	HK\$1.00	3,295
		746,000	February 14, 2012	HK\$6.35	HK\$1.00	
Lu Yimin	—	—	—	—	—	498
Zuo Xunsheng	Beneficial Owner (<i>Personal</i>)	686,894	November 16, 2010	HK\$5.57	—	507
Tong Jilu	Beneficial Owner (<i>Personal</i>)	292,000	June 22, 2010	HK\$15.42	HK\$1.00	2,465
		92,000	July 19, 2010	HK\$5.92	HK\$1.00	
		460,000	February 14, 2012	HK\$6.35	HK\$1.00	
	Beneficial Owner (<i>Spouse</i>)	32,000	July 19, 2010	HK\$5.92	HK\$1.00	
		40,000	February 14, 2012	HK\$6.35	HK\$1.00	
Cesareo Alierta Izuel	—	—	—	—	—	57
Jung Man Won	—	—	—	—	—	—

Name	Capacity and Nature	Number of Shares Covered ⁽¹⁾	Expiration Date	Exercise Price	Consideration Paid	Compensation for 2008 (RMB in thousand)
Wu Jinglian	Beneficial Owner (Personal)	292,000	May 20, 2010 ⁽⁶⁾	HK\$4.30	HK\$1.00	365
		292,000	July 19, 2010	HK\$5.92	HK\$1.00	
Linus Cheung Wing Lam	—	—	—	—	—	347
Wong Wai Ming	—	—	—	—	—	360
John Lawson Thornton	—	—	—	—	—	74
Timpson Chung Shui Ming	—	—	—	—	—	74
Employees⁽²⁾⁽³⁾⁽⁴⁾		16,977,600	June 21, 2010 ⁽⁵⁾	HK\$15.42	HK\$1.00	
		4,058,000	June 22, 2010 ⁽⁵⁾	HK\$15.42	HK\$1.00	
		8,664,000	May 20, 2010 ⁽⁶⁾	HK\$4.30	HK\$1.00	
		40,608,000	July 19, 2010 ⁽⁵⁾	HK\$5.92	HK\$1.00	
		128,000	December 20, 2010 ⁽⁵⁾	HK\$6.20	HK\$1.00	
		150,310,000	February 14, 2012 ⁽⁵⁾	HK\$6.35	HK\$1.00	
		99,940,204	November 16, 2010	HK\$5.57	HK\$1.00	
		88,929,468	December 5, 2011	HK\$8.26	HK\$1.00	

(1) Each option gives the holder the right to subscribe for one share.

(2) Include Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Li Zhengmao and Mr. Miao Jianhua, who resigned as Executive Directors on May 23, 2008. The number of options outstanding as of May 31, 2009 included a total of 2,909,000 options held by Mr. Shang Bing, Mr. Yang Xiaowei and Mr. Li Zhengmao as beneficial owner (personal).

Mr. Shang Bing, Mr. Yang Xiaowei and Mr. Li Zhengmao were determined by the Board as “Transferred Personnel” pursuant to the Pre-Global Offering Share Option Scheme and the Share Option Scheme, and options held by them are subject to relevant terms of the Pre-Global Share Option Scheme and the Share Option Scheme. The number of options outstanding as of May 31, 2009 includes the options held by Mr. Shang Bing, Mr. Yang Xiaowei and Mr. Li Zhengmao as beneficial owner (personal).

(3) Include Mr. Li Gang, Mr. Zhang Junan and Mr. Lu Jianguo, who resigned as Executive Directors on October 15, 2008. Number of options outstanding as of May 31, 2009 included a total 2,084,600 options held by them as beneficial owners (personal).

(4) According to the terms of the CDMA business disposal between our company and China Telecom, some of our employees were transferred to China Telecom upon the CDMA business disposal becoming effective. Pursuant to the Pre-Global Share Option Scheme and the Share Option Scheme, the said transferred employees may exercise (a) all effective options (granted and vested under those two share option schemes) to the extent such options had not been already exercised and (b) all effective unvested options (options that had not vested by the time of such transfer of employees according to the applicable vesting schedule but were nevertheless vested by the Board pursuant to those two option schemes) at any time from the date of their transfer to the earlier of (i) 12 months after the date of the transfer and (ii) the end of applicable option period. All other options will lapse automatically on the date immediately after the date of such transfer of employees. The number of options outstanding as of May 31, 2009 and held by our employees includes a total number of approximately 22,500,000 options that are held by those transferred employees.

(5) Include approximately 25,000,000 options, for which the Board extended the exercisable period for one year pursuant to amendments of the Share Option Scheme and the Pre-Global Offering Share Option Scheme approved by our shareholders on May 26, 2009, held by employees who were (i) determined by the Board as “Transferred Personnel” under the applicable share option scheme due to the transfers of those employees to other telecommunications operators as part of the 2008 industry restructuring (including some ex-directors and employees discussed in notes (2) and (4) above) and (ii) unable to exercise their options due to a “Mandatory Moratorium” as set forth in the Share Option Scheme and the Pre-Global Offering Share Option Scheme.

(6) The original expiration date for these options was May 20, 2009, which was extended to May 20, 2010 by the Board pursuant to amendments of the Share Option Scheme and the Pre-Global Offering Share Option Scheme approved by our shareholders on May 26, 2009, because those options were not exercisable due to a “Mandatory Moratorium” as set forth in the Share Option Scheme and the Pre-Global Offering Share Option Scheme.

Stock Incentive Schemes

Share Option Scheme. We adopted a share option scheme on June 1, 2000, and amended the scheme on each of May 13, 2002, May 11, 2007 and May 26, 2009. The amended scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of share options to a “connected person” (as defined in the HKSE Listing Rules) of Unicom requires approval by our independent non-executive

directors, excluding any independent non-executive director who is the grantee of the option. We plan to grant options that cover a total number of ordinary shares not exceeding 10% of the total number of our issued and outstanding shares as of May 13, 2002. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date. The subscription price of a share in respect of any particular option granted under this share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares on the HKSE on the grant date of such option; and (iii) the average closing price of the shares on the HKSE for the five trading days immediately preceding the grant date. As of May 31, 2009, 206,540,000 options granted by us under the share option scheme were outstanding and held by 3 directors and approximately 2,800 of our employees. As of May 31, 2009, 1,766,000 options with an exercise price of HK\$15.42, 34,131,200 options with an exercise price of HK\$6.18, 92,398,800 options with an exercise price of HK\$4.3, 366,000 options with an exercise price of HK\$4.66, 67,084,000 options with an exercise price of HK\$5.92 and 10,652,000 options with an exercise price of HK\$6.35 had been exercised.

Pre-Global Offering Share Option Scheme. We adopted a pre-global offering share option scheme on June 1, 2000, and amended the scheme on each of May 13, 2002, May 11, 2007 and May 26, 2009. As of May 31, 2009, 16,977,600 options granted by us under the pre-global offering share option scheme were outstanding and held by approximately 185 of our employees. No option was held by the directors. We do not expect to grant further options under this scheme. The amended terms of the pre-global offering share option scheme are substantially the same as the share option scheme, except for the following:

- The subscription price of a share in respect of any particular option granted under the pre-global offering share option scheme is HK\$15.42, the offer price in the Hong Kong public offering portion of our initial public offering, excluding brokerage fees and transaction levy.
- The period during which an option may be exercised commences two years from the date of grant and ends 10 years from June 22, 2000.

As of May 31, 2009, 6,396,800 options granted under this scheme had been exercised.

Special Purpose Share Option Scheme. We also adopted a special purpose share option scheme on September 16, 2008, in connection with our merger with China Netcom and amended the scheme on May 26, 2009. The special purpose share option scheme provides for the grant of options to the optionholders of China Netcom, in consideration for the cancellation of their outstanding China Netcom options (whether vested or not) on October 14, 2008. There are two exercise periods for the options granted under the special purpose share option scheme, one of which commenced on October 15, 2008, and will end on November 16, 2010, with an exercise price of HK\$5.57 and the other commenced on October 15, 2008, and will end on December 5, 2011, with an exercise price of HK\$8.26. No amount was payable on acceptance of the grant of options under the special purpose share option scheme. As of May 31, 2009, 189,556,566 options granted under this scheme were outstanding and held by one director and approximately 690 of our employees. As of May 31, 2009, no options granted under this scheme had been exercised.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of May 31, 2009, our controlling shareholder, Unicom Group, through its 17.90% direct interest in Unicom BVI, 61.05% direct interest in the A Share Company (which in turn holds 82.10% of Unicom BVI) and 100% direct interest in Netcom BVI, indirectly and beneficially owned approximately 16.7 billion shares of Unicom, or 70.40% of our total outstanding shares. See "A. History and Development of the Company" under Item 4. Unicom Group's shares are held by the SASAC and a group of eleven companies, most of which are state-owned enterprises in China. Shares beneficially owned by Unicom Group do not carry voting rights different from our other issued shares. In addition, Telefónica, which became our shareholder upon the completion of our merger with China Netcom, held 5.38% of our total outstanding shares.

As of May 31, 2009, most of our shareholders of record were located outside of the United States. In addition,

as of May 31, 2009, there were approximately 72,405,304 ADSs outstanding, each representing 10 shares and together representing 3.05% of our total outstanding shares or 10.3% of our total outstanding shares not beneficially owned by our controlling shareholder.

B. Related Party Transactions

Prior to our merger with China Netcom, Netcom BVI and Netcom Group (which was the 100% owner of Netcom BVI) did not have any shareholding interest in us. Upon completion of the merger, China Netcom became one of our wholly-owned subsidiaries and Netcom BVI currently owns 29.49% of our total outstanding shares. Accordingly, the related party transactions between China Netcom and its subsidiaries, namely, CNC China (which merged with, and was absorbed by, CUCL in January 2009 after the completion of our merger with China Netcom) and China Netcom System Integration (which became one of our wholly-owned subsidiaries upon the completion of our merger with China Netcom), on one hand and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009 after the completion of our merger with China Netcom) on the other hand in effect before our merger with China Netcom became our related party transactions upon the completion of the merger.

There were transactions between certain of our subsidiaries and Netcom Group in existence before our merger with China Netcom. Upon completion of the merger, these transactions became our related party transactions. On August 12, 2008, CUCL and Netcom Group entered into various framework agreements to record the principles governing, and the principal terms of, these continuing transactions that would take effect upon the completion of our merger with China Netcom.

In addition, before our merger with China Netcom, we had entered into a number of service arrangements with Unicom Group and/or its subsidiaries (other than us and our subsidiaries) with respect to the provision of ongoing telecommunications and ancillary services between Unicom Group and us. On October 26, 2006, we entered into a comprehensive services agreement with Unicom Group to record such related party transactions. In order to include CNC China as a party to the service arrangements and to facilitate our business and operations after our merger with China Netcom, Unicom Group and the A Share Company entered into a comprehensive services agreement on August 12, 2008, and the A Share Company, CUCL and CNC China entered into a transfer agreement on August 12, 2008, to amend the terms of the continuing related party transactions between us and Unicom Group in existence before our merger with China Netcom, with effect upon the completion of the merger.

Our related party transactions in connection with the lease of and the option to purchase the CDMA network from Unicom Group were terminated upon the disposal of our CDMA business.

In January 2009, subsequent to our merger with China Netcom and the disposal of our CDMA business, we completed our acquisitions, through CUCL, of certain telecommunications business and assets from Unicom Group and Netcom Group, including the telecommunications business across 21 provinces in southern China. See “A. History and Development — Recent Developments — 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.

Furthermore, the effects of certain of our and China Netcom’s related party transactions that occurred before 2008 (including, for example, those in relation to our and China Netcom’s initial public offerings) were not substantially affected by either our merger with China Netcom or the disposal of our CDMA business.

Continuing Related Party Transactions between China Netcom’s Subsidiaries and Netcom Group

Details of the continuing related party transactions between China Netcom’s subsidiaries and Netcom Group, which became our related party transactions upon the completion of our merger with China Netcom, are summarized below.

Domestic Interconnection Settlement Agreement

CNC China and Netcom Group entered into a domestic interconnection settlement agreement on November

6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the domestic interconnection settlement agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the domestic interconnection settlement agreement, the parties agree to interconnect the networks of Netcom Group and CNC China and settle the charges received in respect of domestic long distance voice services within their respective service regions on a quarterly basis.

For domestic long distance voice services between Netcom Group and CNC China, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute, irrespective of whether the call terminates within the network of either Netcom Group or CNC China or outside the network of either Netcom Group or CNC China. The rate of RMB0.06 per minute is adjustable with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in the PRC from time to time.

International Long Distance Voice Services Settlement Agreement

CNC China and Netcom Group entered into an international long distance voice services settlement agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the international long distance voice services settlement agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the international long distance voice services settlement agreement, the parties agree to interconnect the networks of Netcom Group and CNC China and settle the charges received in respect of international long distance voice services on a quarterly basis.

For outbound international calls from the PRC, Netcom Group reimburses CNC China for any amount CNC China pays to overseas telecommunications operators. The revenues received by Netcom Group less the amount paid to overseas telecommunications operators are shared between Netcom Group and CNC China in proportion to the estimated costs incurred by Netcom Group and CNC China in connection with the provision of outbound international long distance voice services.

For inbound international calls into the PRC, the revenues received by CNC China from overseas telecommunications operators (other than China Netcom and entities under its control) less the amount paid to Netcom Group at the rate of RMB0.06 per minute (irrespective of whether the call terminates within the network of Netcom Group or within the network of other telecommunications operators) are shared between Netcom Group and CNC China in proportion to the estimated costs incurred by Netcom Group and CNC China in connection with the provision of inbound international long distance voice services. The rate of RMB0.06 per minute is adjustable with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in the PRC from time to time.

Engineering and Information Technology Services Agreement

CNC China and Netcom Group entered into an engineering and information technology services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the engineering and information technology services agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

The engineering and information technology services agreement governs the arrangements with respect to the provision of certain engineering and information technology-related services to CNC China by Netcom Group, which include planning, surveying, design, construction and supervision services in relation to telecommunications engineering projects and information technology services, including office automation, software testing, network upgrade, new business development and support system development.

The charges payable for engineering and information technology-related services described above are determined with reference to the relevant market rates. In addition, where the value of any single item of engineering design or supervision-related services is expected to exceed RMB0.5 million or where the value of any single item of engineering construction-related services is expected to exceed RMB2 million, the award of such services will be subject to competitive bidding. The charges are settled between CNC China and Netcom Group as and when the relevant services are provided.

Master Sharing Agreement

CNC China and Netcom Group entered into a master sharing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the master sharing agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the master sharing agreement:

- (a) CNC China agrees to provide customer relationship management services for large enterprise customers of Netcom Group;
- (b) CNC China agrees to provide network management services to Netcom Group;
- (c) CNC China agrees to share with Netcom Group the services provided by administrative and managerial staff in respect of central management of the business operations, financial control, human resources and other related matters of both CNC China and Netcom Group;
- (d) CNC China agrees to provide to Netcom Group supporting services, such as billing and settlement provided by CNC China's business support center;
- (e) Netcom Group agrees to provide to CNC China supporting services, including telephone card production, development and certain related services;
- (f) Netcom Group agrees to provide to CNC China certain other shared services, including advertising, publicity, research and development, business hospitality, maintenance and property management;
- (g) Netcom Group agrees to provide certain office space in its headquarters to CNC China for use as CNC China's principal executive office; and
- (h) CNC China and Netcom Group agree to share the revenues received by Netcom Group from other telecommunications operators whose networks interconnect with the Internet backbone network of Netcom Group and share the monthly connection fee that Netcom Group pays to the State Internet Switching Center.

CNC China and Netcom Group co-own certain equipment and facilities that form the Internet backbone network of the PRC. This Internet backbone network interconnects with the networks of other telecommunications operators. Such interconnection arrangements generate revenues which other telecommunications operators settle with Netcom Group, and such revenues are shared between Netcom Group and CNC China under the master sharing agreement.

The services referred to in paragraphs (a) to (g) above are provided by CNC China or Netcom Group and the revenues and fees referred to in paragraph (h) above are shared between CNC China and Netcom Group on an ongoing basis from time to time. The aggregate costs incurred by CNC China or Netcom Group for the provision of the services referred to in paragraphs (a) to (g) above and the revenues and fees receivable and payable by CNC China or Netcom Group as referred to in paragraph (h) above are apportioned between CNC China and Netcom Group according to their respective total asset values as shown in their respective financial statements on an annual basis.

Property Leasing Agreement

CNC China and Netcom Group entered into a property leasing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the property leasing agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

Pursuant to the property leasing agreement, CNC China agrees to lease to Netcom Group certain properties located throughout CNC China's service regions for Netcom Group's use as offices and for other ancillary purposes, and Netcom Group agrees to lease to CNC China certain properties located throughout CNC China's service regions for CNC China's use as offices and telecommunications equipment sites and for other ancillary purposes.

The charges payable by CNC China and by Netcom Group under the property leasing agreement are based on the relevant market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The charges are payable quarterly in arrears and are subject to review every year to take into account the then-prevailing market rates of the properties leased in that year.

Materials Procurement Agreement

CNC China and Netcom Group entered into a materials procurement agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the materials procurement agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

Pursuant to the materials procurement agreement:

- (a) CNC China may request Netcom Group to act as its agent for the procurement of imported and domestic telecommunications equipment and other domestic non-telecommunications equipment;
- (b) CNC China may purchase from Netcom Group certain products, including cables, modems and telephone directories; and
- (c) Netcom Group agrees to provide to CNC China storage and transportation services related to the procurement and purchase of materials or equipment under the agreement.

Under the materials procurement agreement, commissions and/or charges for the domestic materials procurement services referred to in paragraph (a) above cannot exceed 3% of the value of the relevant contract. Commissions and/or charges for the imported materials procurement services referred to in paragraph (a) above cannot exceed 1% of the value of the relevant contract. The price for the purchases of Netcom Group's products referred to in paragraph (b) above is determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market

price; or

- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

Commission and/or charges for the storage and transportation services referred to in paragraph (c) above are to be determined with reference to the relevant market rates. Payments under the materials procurement agreement will be made as and when the relevant equipment or products are procured and delivered.

Ancillary Telecommunications Services Agreement

CNC China and Netcom Group entered into an ancillary telecommunications services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the ancillary telecommunications services agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

The ancillary telecommunications services agreement governs the arrangements with respect to the provision of ancillary telecommunications services to CNC China by Netcom Group. These services include certain pre-sale, on-sale and after-sale telecommunications services, such as assembling and repairing of telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customer acquisition and servicing, and other customer services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market price; or
- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CNC China and Netcom Group as and when the relevant services are provided.

Support Services Agreement

CNC China and Netcom Group entered into a support services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the support services agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

Pursuant to the support services agreement, Netcom Group agrees to provide CNC China with various support services, including equipment leasing (other than equipment covered under the telecommunications facilities leasing agreement discussed below) and maintenance services, motor vehicle services, security services, basic construction agency services, research and development services, employee training services, advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market price; or
- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CNC China and Netcom Group as and when the relevant services are provided.

Telecommunications Facilities Leasing Agreement

CNC China and Netcom Group entered into a telecommunications facilities leasing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. If CNC China notifies Netcom Group at least three months prior to the expiration of the telecommunications facilities leasing agreement of its intention to renew the agreement, such agreement can be renewed on the same terms for further three-year periods.

Pursuant to the telecommunications facilities leasing agreement:

- Netcom Group agrees to lease certain inter-provincial fiber optic cables within CNC China's service regions to CNC China;
- Netcom Group agrees to lease certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to CNC China; and
- Netcom Group agrees to lease to CNC china certain other telecommunications facilities required by CNC China for its operations.

The rental charges for the leasing of the inter-provincial fiber optic cables, international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such fiber optic cables, resources and telecommunications facilities, provided that such charges would not be higher than the relevant market rates. CNC China is responsible for the ongoing maintenance of such inter-provincial fiber optic cables and international telecommunications resources. CNC China and Netcom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in paragraph (c) above. Unless otherwise agreed by CNC China and Netcom Group, such maintenance service charges would be borne by CNC China. If Netcom Group shall be responsible for maintaining any telecommunications facilities referred to in paragraph (c) above, CNC China shall pay to Netcom Group the relevant maintenance service charges, which shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Netcom Group under the telecommunications facilities leasing agreement are settled between CNC China and Netcom Group on a quarterly basis.

Information and Communications Technology Agreement

China Netcom System Integration, which also became one of our subsidiaries upon the completion of our merger with China Netcom, and Netcom Group entered into an information and communications technology agreement on November 6, 2007, which replaced a previous similar agreement, for a term of three years commencing on January 1, 2008. If both parties agree, the agreement can be renewed with the same terms for further three-year periods.

Pursuant to the information and communications technology agreement:

- (a) China Netcom System Integration (and its subsidiaries) agrees to provide information and communications technology services to Netcom Group (and its subsidiaries, other than China Netcom and its subsidiaries), which include system integration services, software development services, operational maintenance services, consultancy services, equipment leasing-related services and product sales- and distribution-related services; and
- (b) China Netcom System Integration agrees to subcontract services ancillary to the provision of information and communications technology services referred to in paragraph (a) above, namely, system installation and configuration services, to the subsidiaries and branches of Netcom Group (other than China Netcom and its subsidiaries) in Netcom Group's southern service regions in the PRC.

The charges payable for the services provided under the information and communications technology agreement are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price; or
- where there is neither a government-fixed price nor a government-recommended price, the market price.

In relation to the charges payable for the services provided under the information and communications technology agreement that are to be determined with reference to the market price:

- if the value of any single item of system installation and configuration services provided by Netcom Group (and its subsidiaries, other than China Netcom and its subsidiaries) to China Netcom System Integration (and its subsidiaries) is expected to exceed RMB0.3 million, the award of such services will be subject to competitive bidding; or
- if the value of any single item of system integration, software development, operational maintenance, consultancy and equipment leasing-related services is expected to exceed RMB0.5 million, or where the value of any single item of product sales and distribution related services is expected to exceed RMB2 million, the award of such services will be subject to competitive bidding.

Related Party Transactions between CUCL and Netcom Group

Summarized below are details of the transactions between certain of our subsidiaries and Netcom Group in effect before our merger with China Netcom, which became our related party transactions upon the completion of the merger and were recorded in a series of framework agreements entered into between CUCL and Netcom Group on August 12, 2008.

Framework Agreement for Interconnection Settlement

CUCL and Netcom Group entered into a framework agreement for interconnection settlement on August 12, 2008, to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties whereby the parties agreed to interconnect the networks of Netcom Group and CUCL and settle charges received in respect of domestic long distance voice services within their respective service regions and international long distance voice services.

Pursuant to the framework agreement for interconnection settlement, within the local networks, when a

CUCL mobile telephone customer calls a Netcom Group fixed-line customer, or when customers of the two operators make inter-network calls to various call centers, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute.

When a CUCL mobile telephone user chooses to use Netcom Group's domestic or international long distance call services, or when a Netcom Group local fixed-line user chooses to use CUCL's domestic or international long distance call services, the telephone operator in the location of the called party makes a settlement payment to the telephone operator in the location of the calling party at the rate of RMB0.06 per minute.

For domestic long distance voice services and Internet protocol voice services from one operator to another, for international voice services and international Internet protocol voice services from one operator to another, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute.

However, for domestic long distance voice services between the parties where the calling party is unable to choose to use a third-party operator, the settlement payment rate will be RMB0.34 per minute if the call is made between 0:00 and 07:00 hours and RMB0.54 per minute if the call is made between 07:00 and 23:59 hours. For calls that need to be transferred to a third-party operator, the settlement rate for the transfer is RMB0.03 per minute.

Framework Agreement for Engineering and Information Technology Services

CUCL and Netcom Group entered into a framework agreement for engineering and information technology services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of certain engineering and information technology-related services to CUCL by Netcom Group. These services include the provision of planning, surveying, design, construction and supervision services in relation to telecommunications engineering projects and information technology services, including office automation, software testing, network upgrade, new business development and support system development.

The charges payable for the engineering and information technology-related services described above are determined with reference to the relevant market rates. The award of such services is governed by requirements under the PRC Law on Invitation and Submission of Bids. The charges are settled between CUCL and Netcom Group as and when the relevant services are provided.

Framework Agreement for Property Leasing

CUCL and Netcom Group entered into a framework agreement for property leasing on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the leasing of properties (including offices and storage facilities) by CUCL from Netcom Group.

The rental charges payable by CUCL to Netcom Group are based on the relevant market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review and adjustment every year to take into account the then-prevailing market rates of the properties leased in that year.

Framework Agreement for Ancillary Telecommunications Services

CUCL and Netcom Group entered into a framework agreement for ancillary telecommunications services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of ancillary telecommunications services to CUCL by Netcom Group.

These services include certain pre-sale, on-sale and after-sale telecommunications services such as assembling and repairing of telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customer acquisition and servicing, and other customer services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market price; or
- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Netcom Group as and when the relevant services are provided.

Framework Agreement for Support Services

CUCL and Netcom Group entered into a framework agreement for support services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of various support services to CUCL by Netcom Group, including equipment leasing and maintenance services, motor vehicle services, security services, basic construction agency services, research and development services, employee training services, advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market price; or
- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Netcom Group as and when the relevant services are provided.

Framework Agreement for Telecommunications Facilities Leasing

CUCL and Netcom Group entered into a framework agreement for telecommunications facilities leasing on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the lease by Netcom Group of certain international telecommunications resources and certain other telecommunications facilities to CUCL.

Pursuant to the framework agreement for telecommunications facilities leasing:

- (a) Netcom Group agrees to lease certain inter-provincial fiber optic cables within CUCL's service regions to CUCL;
- (b) Netcom Group agrees to lease certain international telecommunications resources (including

international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to CUCL; and

- (c) Netcom Group agrees to lease certain other telecommunications facilities required by CUCL for its operations.

The rental charges for the leasing of the inter-provincial fiber optic cables, international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such fiber optic cables, resources and telecommunications facilities provided that such charges would not be higher than the relevant market rates. CUCL is responsible for the ongoing maintenance of such inter-provincial fiber optic cables and international telecommunications resources. CUCL and Netcom Group shall determine and agree which party is to provide maintenance services to the telecommunications facilities referred to in paragraph (c) above. Unless otherwise agreed by CUCL and Netcom Group, such maintenance service charges would be borne by CUCL. If Netcom Group shall be responsible for maintaining any telecommunications facilities referred to in paragraph (c) above, CUCL shall pay to Netcom Group the relevant maintenance service charges which shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Netcom Group under the Framework Agreement for Telecommunications Facilities Leasing are settled between CUCL and Netcom Group on a quarterly basis.

Amended Continuing Related Party Transactions

Under the two-step approach described under “A. History and Development of the Company—Two-Step Voting Arrangements” of Item 4 above, the continuing transactions between CUCL and Unicom Group under the comprehensive services agreement entered into in 2006 were amended, effective upon the completion of our merger with China Netcom, with CNC China added as party to such transactions. The new comprehensive services agreement is valid for a term of three years. Unless CUCL and CNC China notify Unicom Group at least 60 days prior to the expiration of such agreement of their intention not to renew a new comprehensive services agreement, such agreement shall automatically be renewed for a further period of three years. The total amount paid by CUCL and CNC China to Unicom Group (or its subsidiaries, other than us and our subsidiaries) under the 2006 comprehensive services agreement and the new comprehensive services agreement was approximately RMB2.21 billion and RMB0.31 billion for continuing operations and discontinued operations, respectively, in 2008. Unicom Group paid RMB0.18 million to CUCL and CNC China in 2008.

Details of the amended continuing related party transactions, the material terms of which are substantially similar to those of the related party transactions under the 2006 comprehensive services agreement, are summarized below.

Supply of Telephone Cards

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide various kinds of telephone cards, including subscriber identity module cards, Internet protocol telephone cards, long-distance calling cards and rechargeable calling cards, for each of CUCL’s and CNC China’s various networks. Unicom Group agrees to ensure that the quality of its telephone cards complies with the standards set by the government authorities.

Charges for the supply of these cards are based on the actual costs (including the cost of purchasing telephone cards, manufacturing cost and the cost of issuing telephone cards) incurred by Unicom Group or its subsidiaries in supplying the cards together with a margin over cost to be agreed from time to time, but in any case not to exceed 20% of the cost and subject to appropriate volume discounts. Under the new comprehensive services agreement, prices and volumes will be reviewed by the parties on an annual basis.

In January 2009, we, through CUCL, completed the acquisition from Unicom Group of 100% of the equity interest in Unicom Xingye, which is engaged in, among other things, manufacturing, research and design of SIM cards and other telephone cards in the PRC. As a result, this transaction will eliminate our related party transactions with respect to telephone cards with Unicom Xingye.

Provision of Equipment Procurement Services

Unicom Group agrees to provide comprehensive procurement services to each of CUCL and CNC China through its subsidiary or subsidiaries (other than us and our subsidiaries). Unicom Group agrees to procure foreign and domestic telecommunications equipment and other materials required in the operation of each of CUCL's and CNC China's various networks and agrees to provide services on management and consultation of competitive biddings and agency services.

In addition, Unicom Group agrees to indemnify each of CUCL and CNC China for any loss caused by any negligence, default, act or omission of Unicom Group or its subsidiaries in respect of equipment procurement under the new comprehensive services agreement. The aggregate liability of Unicom Group for any claim under the new comprehensive services agreement shall not exceed the total amount of agency service fees paid to Unicom Group under the new comprehensive services agreement.

Charges for these services described above are calculated at the rate of:

- (a) 0.55% of the contract value of those procurement contracts up to and including US\$30 million and 0.35% of the contract value of those procurement contracts over US\$30 million, in the case of imported equipment; and
- (b) 0.25% of the contract value of those procurement contracts up to and including RMB200 million and 0.15% of the contract value of those procurement contracts over RMB200 million, in the case of domestic equipment.

Interconnection Arrangements

CUCL, CNC China and Unicom Group agree to interconnect various telecommunications networks of CUCL and CNC China on one hand and Unicom Group on the other hand.

The parties agree to conduct settlement in accordance with the settlement standard stipulated in the Notice Concerning the Issue of the Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian 2003 No. 454) promulgated by the former Ministry of Information Industry of the PRC on October 28, 2003.

The parties further agree that if the settlement method (and its amendment from time to time) formulated by the relevant government authorities in respect of similar settlements between telecommunications networks is more favorable to each of CUCL and CNC China when compared with the above interconnection settlement arrangements, settlement shall be conducted pursuant to the more favorable settlement method.

Previously, Netcom Group had interconnection arrangements with Unicom Group. These arrangements terminated upon the completion of our merger with China Netcom.

Mutual Provision of Premises

CUCL, CNC China and Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) agree to provide to each other premises (including buildings, air conditioning, electricity, power-generating equipment and other relevant auxiliary facilities) belonging to CUCL, CNC China or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) or leased to CUCL, CNC China or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) by independent third parties upon the request of any of the three parties from time to time.

Apart from cases where the premises have been leased from independent third parties, the use fees or the rental amounts are based on the lower of depreciation costs and market prices for similar premises in that locality. However, any of CUCL, CNC China or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) may choose to charge each other market price for premises rented to the other party or parties.

In addition to the rental amounts, with respect to buildings, CUCL, CNC China or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) agree to pay scheduled water and electricity tariffs, air-conditioning charges and other expenses actually consumed or used, together with the property management fees for the leased buildings, in accordance with such price or fee standards stipulated by the pricing authority. Apart from the rental amounts and disbursements described above and other expenses incurred as a result of any breach of contract, the party providing the lease guarantees that the other party shall not be requested to pay any other expenses, including any taxes payable by the party providing the lease.

In cases where the premises have been leased from an independent third-party, the use fees or the rental amounts are the amounts that are payable under the head lease. Charges for any air-conditioning and electricity are to be included in the rental amounts. In the case of shared premises, the use fees or the rental amounts are split in proportion to the respective areas occupied by the parties.

Provision of International Telecommunications Network Gateways

Unicom Group agrees to provide international access to CUCL's and CNC China's international long distance call services through its gateways at Shanghai, Guangzhou and Beijing. Unicom Group agrees not to provide international telecommunications network gateway services to any other party.

Charges for these services are based on the costs of Unicom Group to operate and maintain the international telecommunications network gateway facilities (including depreciation costs) that have been included in the management accounts of Unicom Group, verified and audited by local auditors and with a margin of 10% over such costs. CUCL and CNC China agree to retain all the revenues arising from the provision of international long-distance call services for their own benefit.

Provision of Operator-Based Value-Added Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to use its operator-based network, equipment and operators to provide operator-based comprehensive value-added services to CUCL and CNC China, including, but not limited to, "Unicom Assistant" and operator-based message services.

CUCL and CNC China agree to retain 40% of the revenues generated from operator-based value-added services provided to our subscribers (and actually received by CUCL and CNC China) and to allocate 60% of such revenues to Unicom Group for settlement, on the condition that such proportion allocated to Unicom Group shall not be higher than the average proportion allocated by independent operator-based value-added telecommunications content providers who provide operator-based value-added telecommunications content to us in the same regions.

Provision of Value-Added Telecommunications Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide the customers of CUCL and CNC China with various types of value-added telecommunications services.

CUCL and CNC China agree to retain a portion of the revenues generated from the value-added services provided to our subscribers (and actually received by CUCL and CNC China) and to allocate a portion of such revenues to Unicom Group for settlement, on the condition that such proportion allocated to Unicom Group shall not be higher than the average proportion allocated by independent value-added telecommunications content providers who provide value-added telecommunications content to us in the same regions. The percentage of revenues to be allocated to Unicom Group by each of CUCL and CNC China will vary depending on the types of value-added services provided to us.

Provision of "10010/10011" Customer Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide customer services to CUCL and CNC China in relation to business inquiries, tariff inquiries, account maintenance, complaint handling (which are also known as "10010 basic services"), customer interviews and subscriber retention (which are also

known as “10010 value-added services”).

The service fees payable by CUCL and CNC China to Unicom Group shall be calculated on the basis of the costs of the customer services plus a profit margin of not more than 10%. The costs of the customer services will be the cost per operator seat multiplied by the number of effectively operating operator seats:

- (a) The cost per operator seat in economically developed metropolises, such as Beijing, Shanghai and Guangdong, shall be the Actual Cost per Operator Seat (as defined below) in such area for the previous year. The cost per operator seat in areas apart from those economically developed metropolises shall be the lower of the Actual Cost per Operator Seat in the same region and the nationwide (excluding Beijing, Shanghai and Guangdong) average of Actual Cost per Operator Seat (as defined below) plus 10%, in each case, for the previous year.

The “Actual Cost per Operator Seat” comprises wages, administration expenses, operation and maintenance expenses, depreciation of equipment and leasing for premises attributable to the customer services. The Actual Cost per Operator Seat in a certain area shall be the product of dividing the costs of Unicom Group providing “10010/10011” services (as confirmed in the audit report issued by an external audit firm) in the same region for the previous year by the average number of monthly operator seats of Unicom Group for the previous year. Such audit report and relevant supporting documents shall be provided to each of CUCL, CNC China and their auditors.

- (b) The number of effectively operating operator seats shall be determined in the following way: Unicom Group shall notify the number of operator seats of the previous month to CUCL and CNC China before the tenth day of each month. CUCL and CNC China shall confirm the number of effectively operating operator seats within five working days, based on the criteria as set out in the Service Standard for Telecommunications Operations (for Trial Implementation) published by the former Ministry of Information and Industry. The number of effectively operating operator seats will be subject to final confirmation by CUCL and CNC China.

In addition, in January 2009, we completed our acquisition from Unicom Group of New Guoxin, which is mainly engaged in providing customer services and hotline services. As a result, this acquisition will eliminate our related party transactions with respect to customer services with New Guoxin.

Provision of Agency Services

Unicom Group (or its subsidiaries) agrees to provide subscriber development services to CUCL and CNC China by telephone or through other channels by utilizing its paging network, equipment and operators.

The pricing standard for the agency fees for such services is that the agency fees chargeable to CUCL and CNC China shall not exceed the average of agency fees chargeable by independent third-party agents providing subscriber development services to CUCL and CNC China in the same regions.

Provision of Engineering Design and Technical Services

Unicom Group (or its subsidiaries) agrees to provide engineering design and technical services to CUCL and CNC China based on their demands and requirements.

CUCL and CNC China agree to select the providers of engineering design services and technical services by way of public tender. Unicom Group agrees to ensure that it or its subsidiaries that provide such services shall possess qualifications and conditions that are not inferior to those of an independent third-party and shall participate in the tendering process on an equal footing with an independent third-party.

The engineering design and technical services provided by Unicom Group to CUCL and CNC China shall not be less favorable than those similar services provided by an independent third-party to CUCL and CNC China.

The pricing standard for the engineering design services shall be determined with reference to, but shall not be higher than, those set forth in the Standard Fees on Engineering, Exploration and Design Services promulgated and implemented by the original State Planning Commission and the Ministry of Construction in 2002 and other relevant national standards. In addition, such pricing standard shall not be higher than the one adopted by an independent third-party providing similar services in the same industry in the PRC.

The pricing standard for the technical services shall be determined with reference to, but shall not be higher than, those set forth in the Notice of the State Planning Commission Concerning Printing and Issuance of the Interim Provisions on the Consulting Fee for Front End Work of Construction Projects promulgated by the State Planning Commission in 1999 and other relevant national standards. In addition, such pricing standard shall not be higher than the one adopted by an independent third-party providing similar services in the same industry in the PRC.

In January 2009, we completed our acquisitions from Unicom Group of 100% of the equity interest in CITC and 100% of the equity interest in Unicom Xingye. CITC is engaged in, among other things, design and development of information networks. Unicom Xingye is engaged in, among other things, research and design of SIM cards and other telephone cards in the PRC. As a result, these acquisitions will eliminate our related party transactions in the areas of research and development of information networks and telephone cards with CITC and Unicom Xingye.

Leasing of CDMA Network Capacity

Unicom Group had the exclusive license to offer CDMA cellular services in the PRC. It had constructed a CDMA network with comprehensive nationwide coverage through its wholly-owned subsidiary, Unicom New Horizon. After the acquisitions of Unicom New Century and Unicom New Horizon, we entered into a consolidated lease agreement with Unicom Group and Unicom New Horizon on March 24, 2005, to replace the three then-existing lease agreements between Unicom Group and Unicom Horizon on the one hand, and CUCL, Unicom New Century and Unicom New World, respectively, on the other hand. On October 26, 2006, we entered into a further updated lease agreement with Unicom Group and Unicom Horizon to replace the 2005 lease agreement. On June 29, 2007, we extended the 2006 CDMA lease for another year, until December 31, 2008. The lease fee for each of 2006, 2007 and 2008 had been RMB8.3 billion, RMB 8.4 billion and RMB6.0 billion, respectively.

We had leased all of the constructed CDMA network capacity from Unicom Group and operated these CDMA networks in our cellular service areas on an exclusive basis and received all revenue generated from the operation. In addition to leasing network capacity, we also had the option, exercisable at any time during the lease period and for an additional year thereafter, to purchase the CDMA network in our cellular service areas.

On June 2 and July 27, 2008, we, CUCL and China Telecom entered into a framework agreement and definitive agreement, respectively, to sell our CDMA business to China Telecom. The disposal of our CDMA business was completed on October 1, 2008. In addition, we were notified by Unicom Group that, on June 2 and July 27, 2008, Unicom Group, Unicom New Horizon and China Telecom entered into a framework agreement and definitive agreement, respectively, pursuant to which Unicom Group and Unicom New Horizon would sell their CDMA cellular telecommunications network to China Telecom. The disposal of the CDMA network was completed on October 1, 2008. In connection with the disposal of the CDMA business and CDMA network, Unicom Group, Unicom New Horizon and the A Share Company entered into an agreement on July 27, 2008, pursuant to which the A Share Company would waive or procure CUCL to waive the right to exercise CUCL's option granted to it under the 2006 CDMA lease, to purchase the CDMA network at any time before December 31, 2008, and the parties agreed to terminate or procure the termination of that lease. See "A. History and Development of the Company—Sale of CDMA Business, Merger with China Netcom and Related Transactions" under Item 4.

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 the two-step voting mechanism described in "A. History and Development of the Company—Two-Step Voting Arrangements" under Item 4, we completed our acquisitions, through CUCL, of certain telecommunications business and assets, including the telecommunications business across 21 provinces in southern China, from Unicom Group and Netcom Group pursuant to (1) an acquisition agreement entered into among Unicom Group, Netcom Group and the A Share Company on December 16, 2008, under which the A Share Company agreed to acquire the relevant

business and assets and (2) a transfer agreement entered into between the A Share Company and CUCL on December 16, 2008, under which the A Share Company agreed to transfer all of its rights and obligations under the acquisition agreement to CUCL. In addition, in order to operate the fixed-line business in the 21 provinces in southern China, CUCL entered into a network lease agreement with Unicom Group, Netcom Group and Unicom New Horizon. In connection with the lease, Unicom New Horizon also granted CUCL an option, but not an obligation, to purchase the telecommunications networks leased in southern China. See “A. History and Development—Recent Developments—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.

Mergers of Parent Companies and Subsidiaries

As part of our integration with China Netcom, our wholly-owned subsidiary, CUCL, merged with CNC China, a wholly-owned subsidiary of China Netcom, with effect from January 2009, and upon such 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, China Netcom’s parent, Netcom Group, also merged with our parent, Unicom Group, with effect from January 2009, and upon such merger becoming effective, Unicom Group assumed all the rights and obligations of Netcom Group, and all the assets, liabilities and business of Netcom Group were vested in Unicom Group.

Agreements Relating to the Restructuring in Connection with Our Initial Public Offering

The Reorganization Agreement

In relation to the restructuring in connection with our initial public offering, our wholly-owned subsidiary CUCL, entered into a reorganization agreement with Unicom Group, dated April 21, 2000. This agreement includes the following terms:

- Unicom Group’s agreement to transfer to CUCL certain assets and liabilities;
- mutual warranties and indemnities given by Unicom Group and CUCL in relation to the assets and liabilities transferred to CUCL and in relation to the restructuring;
- undertakings by Unicom Group in favor of CUCL, including, among other things:
 - to hold and maintain all licenses received from the former Ministry of Information Industry in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;
 - subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;
 - to arrange for us to participate in its international roaming arrangements;
 - not to engage in any business that competes with our businesses, except for the existing competing businesses of Unicom Group;
 - 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;
 - to ensure that we can continue to use the premises for which title documentation cannot be obtained at this time, for a period of three years following the restructuring;

- not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or CUCL, which would result in us or CUCL no longer constituting majority-owned subsidiaries of Unicom Group; and
- 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;
- an option granted by Unicom Group to us to acquire Unicom Group's interest in any telecommunications interest, such as Unicom Paging, Unicom Xingye and Unicom Group's CDMA telephony license and business; and
- a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

The new comprehensive services agreement entered into in 2008 provides that the determination of whether we or CUCL would constitute majority-owned subsidiaries of the Unicom Group shall be made in accordance with the PRC Enterprise Accounting Standards, as amended by the Ministry of Finance from time to time.

Equity Transfer Agreement

In relation to the restructuring in connection with our initial public offering, we, Unicom Group, Unicom HK and Unicom BVI entered into an equity transfer agreement, dated April 21, 2000. This agreement includes the following terms:

- Unicom Group's agreement to transfer all of its equity interest in CUCL to us;
- our agreement to issue shares to Unicom BVI, Unicom BVI's agreement to issue shares to Unicom HK and Unicom HK's agreement to issue shares to Unicom Group;
- Unicom Group's and our agreement that:
 - we shall be entitled to apply in Hong Kong, Macau, Taiwan and in all places outside of China for all trademarks incorporating the word Unicom in English and Chinese and for the Unicom logo; and
 - once these trademarks have been registered, we will sublicense these trademarks to Unicom Group, CUCL, Guoxin Paging and Guoxin Paging's subsidiaries on a royalty-free basis; and
- warranties and indemnities given by Unicom Group to us in relation to CUCL.

Trademark Agreement

Unicom Group is the registered owner of the Unicom trademark in English, the trademark bearing the Unicom logo and the trademark of the word "Unicom" in Chinese ("联通"), which are registered at the PRC State Trademark Bureau. Under a PRC trademark license agreement entered into on May 25, 2000 between Unicom Group and CUCL, CUCL and our affiliates were granted the right to use these trademarks on a royalty-free basis for an initial period of five years, renewable at the option of CUCL. Under the terms of this agreement, we and our affiliates are the exclusive licensees of these trademarks, provided that Unicom Group may also license these trademarks to any of its existing or future subsidiaries. Unicom Group also agreed to license to CUCL any trademark that it registers in China in the future that incorporates the word "Unicom."

Our Roaming Arrangements

Prior to the acquisition of Unicom Guizhou, we and Unicom Group provided roaming services to each other. In addition, we made our long distance network available to Unicom Group in its implementation of its roaming arrangements with other operators. CUCL previously entered into two services agreements with Unicom Group, dated May 25, 2000 and November 22, 2001, respectively, and each of Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated November 20, 2002 and November 20, 2003, respectively. These four services agreements provided for our roaming arrangements with Unicom Group, under which charges for these roaming services between us and Unicom Group were based on our respective internal costs of providing these services, and would be on no less favorable terms than those available to any third-party. We received 50% of Unicom Group's international roaming revenue from third-party cellular international operators for calls using our long distance network.

Under the 2006 comprehensive services agreement between Unicom Group and us, the roaming fee arrangements between Unicom Group and us are as follows:

- The cellular subscribers using roaming services will pay roaming fees at the agreed rate of RMB0.60 per minute of roaming usage for both incoming and outgoing calls, based on the guidelines of the former Ministry of Information Industry.
- If our cellular subscribers roam in the service areas of Unicom Group, we will be entitled to receive the roaming fees, which will be apportioned in the following way: (i) RMB0.40 per minute (the rate for local call charges under the guidelines of the former Ministry of Information Industry) will be paid to Unicom Group; and (ii) the remaining RMB0.20 per minute will be withheld by us;
- If the cellular subscribers of Unicom Group roam in our service areas, Unicom Group will be entitled to receive the roaming fees, which will be apportioned in the following way: (i) RMB0.56 per minute will be paid to us; and (ii) RMB0.04 per minute will be withheld by Unicom Group; and
- If our cellular business expands to cover all regions throughout the PRC, the arrangements set out above will be terminated automatically.
- If the network of a third-party cellular network operator is made available to the cellular subscribers of Unicom Group pursuant to the international roaming arrangements of Unicom Group, or if the network of Unicom Group is made available to the subscribers of any third-party cellular network operator pursuant to such arrangements, we will receive 50% of all roaming revenue to be received under such international roaming arrangements.

Prior to our acquisition of Unicom Guizhou, Unicom Guizhou operated the only CDMA cellular network of Unicom Group that we did not lease and the only GSM cellular network of Unicom Group. Upon the completion of such acquisition in December 2007, our cellular networks covered all regions in China and Unicom Group no longer operated any cellular networks in China. As a result of such acquisition, all transactions, including roaming arrangements, between Unicom Guizhou and us were eliminated and not treated as related party transactions retroactively. Similarly, the roaming arrangements for cellular networks between Unicom Group and us became no longer applicable. See "A. History and Development of the Company—Unicom Acquisitions and Sales" under Item 4.

Asset Transfer Agreement Relating to the Acquisition of Unicom Guizhou

In relation to the acquisition of Unicom Guizhou by CUCL from Unicom Group, CUCL entered into an asset transfer agreement with Unicom Group, dated November 16, 2007. This agreement includes the following terms:

- Unicom Group's agreement to sell and CUCL's agreement to purchase the GSM telecommunications assets and business and CDMA telecommunications business held by

Unicom Guizhou;

- CUCL's agreement to pay Unicom Group a cash consideration in the amount of RMB880 million;
- The profit or loss of Unicom Guizhou for the period from December 31, 2006 to December 31, 2007, the effective date of the transfer, was transferred to Unicom Group; and
- Representations and warranties given Unicom Group in relation to Unicom Guizhou.

Agreements Relating to the Restructuring in Connection with China Netcom's Initial Public Offering

Reorganization Agreements

In anticipation of its global offering in November 2004, China Netcom entered into certain transactions, including a series of transfers of assets and liabilities between China Netcom and Netcom Group. Following its restructuring, China Netcom provided:

- telecommunications businesses in its northern and southern service regions; and
- international telecommunications services in the Asia-Pacific region.

Netcom Group continued to:

- provide telecommunications services in provinces, autonomous regions and municipalities outside China Netcom's northern and southern service regions; and
- own non-core businesses.

In addition, pursuant to a restructuring agreement entered among Netcom Group, China Netcom and CNC China on September 6, 2004, Netcom Group made various representations and warranties in relation to the transfers of businesses, assets and liabilities to China Netcom in the restructuring, which became effective on December 31, 2003. Netcom Group agrees to be responsible for all tax liabilities associated with the business, assets and liabilities transferred to China Netcom that were incurred prior to the restructuring. In addition, Netcom Group agrees to indemnify CNC China against any fines, claims, losses, damages, payments or other expenses incurred by CNC China in connection with or arising from, among other things:

- a breach of any provision of the restructuring agreement on the part of Netcom Group or its subsidiaries (other than CNC China);
- any matter occurring prior to the effective date of the restructuring relating to assets and liabilities transferred to CNC China under the restructuring;
- the assets retained or held by Netcom Group after the restructuring;
- any rights and interests in relation to all employees of CNC China who were employed by Netcom Group prior to the restructuring for the period of their employment by Netcom Group; and
- any defect in property titles in respect of properties transferred to China Netcom under the restructuring.

Furthermore, Netcom Group agrees to indemnify China Netcom, upon China Netcom's request, against any losses, expenses or liabilities incurred by China Netcom as a result of any litigation or other claims against China Netcom or its subsidiaries that relate to events or circumstances that occurred or existed prior to the date of China Netcom's global offering to the extent such matters were not disclosed in China Netcom's financial statements as of

June 30, 2004. Netcom Group agrees to be responsible, upon China Netcom's request, for any penalties, losses, or other liabilities incurred by China Netcom arising from the results of the audit of Netcom Group by the PRC National Audit Office for the accounting periods prior to November 10, 2004.

Netcom Group's Undertakings

In connection with the restructuring and the global offering, Netcom Group had, by a legally binding letter of undertakings dated September 5, 2004, with an unlimited term, undertaken to China Netcom and its subsidiaries that:

- Netcom Group will extend its full support to China Netcom's operations and development;
- China Netcom will be the only basic telecommunications services provider operating in China (through its PRC subsidiary) under Netcom Group's control that will have its securities listed on a stock exchange in Hong Kong or outside of China;
- to the extent within Netcom Group's control, China Netcom will be treated equally with Netcom Group and/or any other operators controlled by Netcom Group in relation to fixed-line telephone services, Internet services (including, but not limited to, fixed-line broadband services), data services, leased line services, international telecommunications services, value-added services or other related telecommunications services with respect to all approvals, transactions and arrangements between China Netcom and Netcom Group and/or such operators controlled by Netcom Group;
- if Netcom Group obtains the license to operate any telecommunications business in China outside the current business scope of China Netcom's PRC subsidiary (including, but not limited to a mobile telecommunications license, new telecommunications services and the testing and commercial operation of new technologies), Netcom Group will notify China Netcom as soon as possible, and upon China Netcom's request, grant exclusively to China Netcom's subsidiary conducting telecommunications business in China, through licensing or otherwise, the right to conduct such telecommunications business within the provinces, municipalities and autonomous regions where China Netcom conducts business. If these arrangements require the approval of the relevant government department, Netcom Group will use its best efforts to seek to obtain such approval;
- to the extent within Netcom Group's control, China Netcom will have the preferential right to acquire Netcom Group's interest in companies or other entities that provide telecommunications services or their businesses; and
- Netcom Group will fulfill the relevant universal services obligations for which it is responsible under relevant regulations and projects by the MIIT. Netcom Group will be responsible for the investment and construction of the network facilities required to fulfill the universal obligations of Netcom Group and/or China Netcom (or its subsidiary) in relation to obligations and other requirements. If China Netcom operates or maintains such network facilities in the regions where it operates in China, Netcom Group has agreed to provide China Netcom with reasonable compensation in respect of the relevant expenses arising as a result of the operation and maintenance of such network facilities, based on fair market value.

The terms of the letter of undertakings do not obligate Netcom Group to provide any financial support to China Netcom.

Trademark Agreements between China Netcom and Netcom Group

Before our merger with China Netcom, China Netcom had marketed its services under the "CNC" brand name and logo, which are registered trademarks in the PRC owned by Netcom Group. Netcom Group had registered

the “CNC Connected” brand name and the “CNC MAX” brand name as a trademark for fixed-line broadband services. On October 8, 2004, China Netcom entered into a new trademark licensing agreement with Netcom Group for our use of, among other things, the “CNC” brand name and logo and the “CNC Connected” brand name. Under this agreement, Netcom Group has agreed to grant to China Netcom and its subsidiaries the right to use these trademarks on a royalty-free basis for ten years, which right is automatically renewable at China Netcom’s option. Currently, we no longer market our business under the “CNC” name and logo, the “CNC Connected” brand or the “CNC MAX” brand.

China Netcom’s Acquisition of CNC New Horizon BVI

On September 12, 2005, China Netcom, Netcom BVI and Netcom Group entered into a conditional sale and purchase agreement whereby China Netcom agreed to acquire the entire equity interests of CNC New Horizon BVI, from Netcom BVI for a consideration of RMB12.8 billion, RMB3.0 billion of which was paid out to Netcom Group on October 31, 2005 at the consummation of the acquisition. Netcom Group had given certain representations, warranties and undertakings with respect to Netcom BVI’s title in CNC New Horizon BVI and China Netcom Group New Horizon Communications Corporation Limited, or CNC New Horizon, a wholly-owned subsidiary of CNC New Horizon BVI, the operations and assets and liabilities of CNC New Horizon and the legal status of CNC New Horizon BVI and CNC New Horizon.

China Netcom’s acquisition in 2005 resulted in the transfer from Netcom Group to China Netcom of its fixed-line telecommunications assets and related liabilities in Heilongjiang Province, Jilin Province, the Inner Mongolia Autonomous Region and Shanxi Province.

On November 3, 2006, CNC China completed its merger with CNC New Horizon BVI, with CNC China being the surviving entity.

Cooperation Agreement Between China Netcom and Netcom Group in Relation to the 2008 Beijing Olympic Games

On September 15, 2005, CNC China entered into a cooperation agreement with Netcom Group whereby CNC China agreed to provide telecommunications goods and services to the Beijing Organization Committee for the Games of the XXIX Olympiad, or BOCOG. As consideration, CNC China is entitled to the right and opportunity to conduct product-related marketing activities using the 2008 Olympics composite logo and sponsorship logo as provided for under the sponsorship agreement between Netcom Group and BOCOG.

Sale of China Netcom’s Business of Guangdong and Shanghai Service Regions

On February 28, 2007, China Netcom completed its sale of the telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality to Netcom Group for a cash consideration of RMB3.5 billion. Netcom Group assumed an aggregate principal amount of RMB3.0 billion of debt, which was due and owing to independent third parties upon completion of the disposal. China Netcom had given certain representations, warranties and undertakings with respect to the business operations and assets and liabilities of the sold business and assets.

China Netcom’s Purchase of Design Institute from Netcom Group

On December 5, 2007, one of China Netcom’s wholly-owned subsidiaries, China Netcom Group System Integration, entered into an equity interest transfer agreement with China Netcom Group Beijing Communications Corporation, a wholly-owned subsidiary of Netcom Group, pursuant to which China Netcom System Integration acquired the entire equity interest of Design Institute for a total cash consideration of RMB299 million. This transaction was completed on December 31, 2007. The acquisition was intended to strengthen China Netcom’s operational and technical capabilities in providing consultancy services and comprehensive communications solutions.

China Netcom's Loans Borrowed from its Subsidiaries and Other Holding Companies

In 2007, China Netcom borrowed loans on an unsecured basis from its subsidiaries and other holding companies. The balances bear interest rates ranging from 3.0% to 3.8% per annum and have repayment terms of 3 years. As of December 31, 2008, all the loans had been repaid.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

See Item 18 "Financial Statements." Other than as disclosed elsewhere in this annual report, no significant change has occurred since the date of the annual financial statements.

Legal Proceedings

We are not involved in any material litigation, arbitration or administrative proceedings. We are not aware of any pending or threatened litigation, arbitration or administrative proceedings expected to have a material effect on our financial condition and results of operations.

Policy on Dividend Distribution

The objective of our dividend policy is to achieve a long-term, sustainable and steadily increasing dividend, with a view to maximize our shareholders' value. The declaration and payment of future dividends will depend upon, among other things, financial condition, business prospects, future earnings, cash flow, liquidity level and cost of capital. We believe such policy will provide our shareholders with a stable return in the long term along with the growth of our company. We may only pay dividends out of our distributable profits.

Having taken into account such factors as our financial condition, cash flow position and requirements to ensure the sustainable future growth of our business, as well as the fact that a large portion of our profit in 2008 was derived from discontinued operations in 2008, our board of directors recommended payment of a final dividend of RMB0.20 per share for the financial year ended December 31, 2008, the same as the annual dividend per share for the financial year ended December 31, 2007. This represents a dividend payout ratio of 14.0%.

Item 9. The Offer and Listing

Market Price Information

Our ADSs, each representing ten ordinary shares, are listed and traded on the NYSE. Our ordinary shares are listed and traded on the HKSE. The NYSE and the HKSE are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our ordinary shares on the HKSE and of our ADSs on the NYSE since listing are as follows:

	Price per Ordinary Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
Annual:				
2003	8.00	3.92	10.55	5.02
2004	10.20	5.20	13.18	6.78
2005	7.20	5.65	9.19	7.30
2006	12.44	6.25	15.46	8.03
2007	18.80	9.18	24.25	11.75

	Price per Ordinary Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
2008	19.58	8.53	25.07	10.27
Quarterly:				
First Quarter, 2007	11.78	9.18	15.09	11.75
Second Quarter, 2007	13.64	11.06	17.47	14.39
Third Quarter, 2007	16.08	11.28	21.03	14.35
Fourth Quarter, 2007	18.80	14.08	24.52	17.63
First Quarter, 2008	19.58	14.70	25.07	19.96
Second Quarter, 2008	18.48	13.92	22.79	17.49
Third Quarter, 2008 ⁽¹⁾	16.48	9.95	21.03	12.60
Fourth Quarter, 2008	12.04	8.53	15.52	10.27
First Quarter, 2009	10.86	6.84	14.06	8.72
Monthly:				
January 2009	10.86	6.84	14.06	8.79
February 2009	7.84	6.90	10.12	8.72
March 2009	8.63	7.00	11.23	8.77
April 2009	8.87	7.46	11.57	9.86
May 2009	9.75	8.83	12.82	11.07
June 2009 (through June 19, 2009)	11.86	10.38	15.50	13.72

(1) Trading was suspended from May 23, 2008 to and including June 2, 2008 on the HKSE and on the NYSE.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

General

Under our Articles of Association, we have the capacity, rights, powers, liabilities and privileges of a natural person and, in addition and without limiting the foregoing, we may do anything which is permitted or required to be done by any enactment or rule of law. The following is a summary of selected provisions of our Articles of Association:

Directors

Material Interests and Voting

A director shall not vote (or be counted in the quorum) on any resolution of our board of directors in respect of any contract or arrangement or proposal in which he or any of his associates (as defined in the HKSE Listing Rules) is, to his knowledge, materially interested, and if he shall do so, his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition does not apply to any contract, arrangement or other proposal for or concerning:

- the giving of any security or indemnity either (i) to the director or any of his associates (as defined in the HKSE Listing Rules) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of Unicom or any of its subsidiaries or (ii) to a

third-party in respect of a debt or obligation of Unicom or any of its subsidiaries for which the director or any of his associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- an offer of shares or debentures or other securities of or by Unicom (or any other company which Unicom may promote or be interested in) where the director or any of his associates is or will be an interested participant in the underwriting or sub-underwriting of the offer;
- any other company in which the director or any of his associates is interested only, whether directly or indirectly, as an officer or shareholder or in which the director or any of his associates is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5% or more of (i) the issued shares of any class of such company (or of any third company through which such interest is derived), or (ii) the voting rights attached to such issued shares or securities (excluding for the purpose of calculating such 5% interest, any indirect interest of such director or any of his associates by virtue of Unicom's interest in such company);
- the benefit of employees of Unicom or any of its subsidiaries, including (i) the adoption, modification or operation of any employee share scheme under which the director or any of his associates may benefit or (ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors, their associates and employees of Unicom or any of its subsidiaries and does not provide in respect of the director or any of his associates, any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- any contract or arrangement in which the director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of Unicom by virtue only of his interest in shares or debentures or other securities of Unicom.

Remuneration and Pensions

The directors of Unicom are entitled to receive by way of remuneration for their services such sum as is from time to time determined by Unicom in a general meeting. The directors are also entitled to have reimbursed all traveling, hotel and other expenses reasonably incurred by them in or about the performance of their duties as directors. The board of directors may grant special remuneration to any director who performs services that, in the opinion of the board, are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to, any persons (i) who are or were at any time in the employment or service of Unicom, or of any company which is a subsidiary of Unicom, or is allied or associated with Unicom or with any such subsidiary company, or (ii) who are or were at any time directors or officers of Unicom or of any such other company above, and have or who have had any salaried employment or had hold office in Unicom or such other company, and the wives, widows, families and dependents of any such persons, and may make payments for or towards the insurance of any such persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers

The directors may exercise all the powers of Unicom to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Unicom and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Unicom or of any third-party.

Qualification of Directors

A director of Unicom is not required to hold any qualification shares.

Rotation of Directors

At every annual general meeting, one-third of the directors for the time being, or, if the number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, except for any director holding office as chairman or chief executive officer. The directors to retire in every year shall be those who have been in office the longest since their last election. In addition, a director appointed by the board to fill in a casual vacancy or as an addition to the board shall retire at the next following general meeting and shall not be taken into account in determining the number of directors who are to retire by rotation at each annual general meeting. The retiring directors shall be eligible for re-election.

Rights Attached to Ordinary Shares

Voting Rights

Under the Companies Ordinance, any action to be taken by the shareholders at a general meeting requires an affirmative vote by either an ordinary or a special resolution passed at the meeting. An ordinary resolution is one passed by the majority of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. A special resolution is one passed by not less than three-quarters of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. Most shareholders' decisions are passed by ordinary resolutions. However, the Companies Ordinance and our articles of association stipulate that certain matters may only be passed by special resolutions.

In accordance with the HKSE Listing Rules, any vote of shareholders at a general meeting will be taken by poll.

In a poll, every shareholder present in person or, if the shareholder is a corporation, by duly authorized representative, or by proxy has one vote for every share of which he or she is the shareholder, which is fully paid up or credited as fully paid up. However, no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Any action to be taken by the shareholders requires the affirmative vote of a majority of the shares at a meeting of shareholders. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Issue of Shares

Under the Companies Ordinance, our board of directors may, without prior approval of our shareholders, offer to issue new shares to existing shareholders proportionately according to their shareholdings. Our board of directors may not offer to issue new shares in any other manner without the prior approval of our shareholders at a general meeting. Any such approval given at a general meeting will continue in force until the conclusion of the following annual general meeting or the expiration of the period within which the next annual general meeting is required by law to be held or when revoked or varied by an ordinary resolution of our shareholders in a general meeting, whichever comes first. If such approval is given, the unissued shares shall be at the disposal of our board of directors, which may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as our board of directors may determine.

In accordance with the HKSE Listing Rules, any such approval given by the shareholders must be limited to shares with an aggregate nominal value not exceeding 20 per cent of the aggregate nominal value of our share capital in issue plus the aggregate nominal amount of share capital repurchased by us since the granting of such approval.

Dividends

Subject to the Companies Ordinance and as set out in our articles of association, our shareholders at a general

meeting may from time to time by ordinary resolution declare dividends to be paid to our shareholders according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by our board of directors.

In addition to any dividends declared at a general meeting upon the recommendation of the board of directors, our board of directors may from time to time declare and pay to our shareholders such interim dividends as appear to our board of directors to be justified by our financial position. Our board of directors may also pay any fixed dividend that is payable on any of our shares on any other dates, whenever our financial position, in the opinion of our board of directors, justifies such payments.

All dividends or bonuses unclaimed for one year after having become payable may be invested or otherwise made use of by the board for the benefit of Unicom until claimed. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and will revert to Unicom.

Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors shall be divided among the shareholders in proportion to the capital paid up on the shares held by them, subject to the rights of the holders of any shares that may be issued on special terms or conditions.

If we are wound up, the liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

Miscellaneous

Shareholders are not entitled to any redemption rights, conversion rights or preemptive rights on the transfer of ordinary shares.

The transfer agent and registrar for the shares is Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Modification of Rights

Subject to the Companies Ordinance, any of the rights from time to time attaching to any class of shares may, subject to the provisions of the Companies Ordinance, be varied or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class. The provisions of our Articles of Association relating to general meetings apply to such separate general meetings, except that the necessary quorum is not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class, and that any holder of the shares of the class present in person or by proxy may demand a poll.

Annual General and Extraordinary General Meetings

We must hold in each year a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting is held at such time (within a period of not more than fifteen months, or such longer period as the Registrar of Companies of Hong Kong may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the board of directors. All other general meetings are called extraordinary general meetings. The board of directors may call an extraordinary general meeting at any time or upon request in accordance with the Hong Kong Companies Ordinance.

Subject to the Companies Ordinance and the HKSE Listing Rules, an annual general meeting and a meeting called for the passing of a special resolution can be called by not less than 21 days' notice in writing, and any other general meeting can be called by not less than fourteen days' notice in writing. The notice must specify the place, date and time of the meeting, and, in the case of special business, the general nature of that business. The HKSE Listing

Rules provide that notice shall be given to shareholders at least 20 clear business days before an annual general meeting and at least 10 clear business days before all other general meetings.

Limitations on Rights to Own Securities

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, imposed by Hong Kong law or by our Memorandum of Association or our Articles of Association.

Changes in Capital

We may exercise any powers conferred or permitted by the Companies Ordinance to purchase or otherwise acquire our own shares and warrants at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase made by any person of any shares or warrants in Unicom. Repurchases of our own shares may be made either by way of a general offer to all shareholders in proportion to their shareholdings, by purchasing our shares on a stock exchange or by an off-market contract with individual shareholders. Any such purchase or other acquisition or financial assistance must be made or given in accordance with any relevant rules or regulations issued by the HKSE or the Securities and Futures Commission of Hong Kong.

We may, in a general meeting, from time to time by ordinary resolution increase our authorized share capital by the creation of new shares, and prescribe the amount of new capital and number of new shares. We may from time to time by ordinary resolution:

- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- divide our shares into several classes and attach to them any preferential, deferred, qualified or special rights, privileges or conditions;
- cancel any shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled;
- sub-divide our shares or any of them into shares of a smaller amount than is fixed by our Memorandum of Association, subject nevertheless to the provisions of the Companies Ordinance; and
- make provision for the issue and allotment of shares which do not carry any voting rights.

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, in accordance with the requirements of the Companies Ordinance. Our company number is 703499.

C. Material Contracts

In addition to the contracts described in "B. Related Party Transactions" under Item 7, Unicom Group, we or our subsidiaries have entered into the following contracts that are not in the ordinary course of business within the two years preceding the date of this annual report that are or may be material:

- CDMA Business Framework Agreement among us, CUCL and China Telecom, dated June 2, 2008,

relating to the sale of our CDMA business and its related assets and liabilities to China Telecom;

- CDMA Business Disposal Agreement among us, CUCL and China Telecom, dated July 27, 2008, relating to the sale of our CDMA business and its related assets and liabilities to China Telecom; and
- Merger Agreement between CUCL and CNC China, dated October 15, 2008, relating to the merger between CUCL and CNC China.

D. Exchange Controls

The ability of our operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future exchange control regulations in China. Under the current relevant regulations, Renminbi is convertible under the current account, which includes trade-and service-related foreign exchange transactions, but is not convertible under the capital account, which includes foreign direct investment. CUCL, our wholly-owned subsidiary that holds substantially all of our assets, is a foreign investment enterprise. The foreign investment enterprise status will allow it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the SAFE. These current account transactions include payment of dividends. However, the relevant PRC Government authorities may in the future limit or eliminate the authorizations for a foreign investment enterprise to retain its foreign exchange to satisfy its foreign exchange obligations or to pay dividends in the future. Furthermore, certain foreign exchange transactions of CUCL under the capital account still require approvals from the SAFE. This requirement affects our subsidiary's ability to obtain foreign exchange through equity financing, including by means of capital contributions from us.

Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws that restrict the import or export of capital and that would affect the availability of cash and cash equivalents for our use, (ii) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of interest, dividends or other payments on our outstanding debt and equity securities to U.S. residents and (iii) there are no limitations on the rights of non-resident or foreign owners to hold our debt or equity securities.

E. Taxation

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-PRC, non-Hong Kong and non-U.S. federal laws. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report.

People's Republic of China

This section describes certain PRC tax consequences of the ownership and disposition of our ordinary shares or ADSs. This section does not address all possible PRC tax considerations that may be relevant to an investment in our ordinary shares or ADSs in light of an investor's specific circumstances, and is based on PRC tax laws and relevant interpretations as in effect as of the date of this annual report on Form 20-F, which are subject to change, possibly with retroactive effect. Accordingly, each prospective investor should consult its own tax advisor regarding the PRC and other tax consequences of an investment in our ordinary shares or ADSs applicable under its particular circumstances.

Taxation of Dividends

Under the PRC Enterprise Income Tax, or the EIT, Law and its implementing rules that became effective on January 1, 2008, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, including dividends received from an enterprise that is domiciled in the PRC. The PRC

enterprise income tax with respect to such dividends is currently required to be withheld at the rate of 10%, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-resident enterprise resides that reduces or exempts the tax.

On April 22, 2009, the PRC State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Tax Residence Status of Chinese-Controlled Offshore-Incorporated Enterprises on the Basis of De Facto Management Bodies, or the 2009 Notice, which was retroactively effective as of January 1, 2008. Pursuant to the 2009 Notice, an enterprise incorporated under the laws of a jurisdiction outside the PRC but controlled by a PRC enterprise or enterprise group may be determined to be a PRC resident enterprise with its de facto management bodies located within the PRC for PRC tax purposes if certain criteria specified under the 2009 Notice are met. Under the 2009 Notice, dividends paid by such an enterprise are deemed to be PRC-sourced income and subject to PRC enterprise income tax. Subject to the official determination by relevant PRC tax authorities, we expect that we will be determined to be a PRC resident enterprise for PRC tax purposes under the EIT Law, its implementing rules and the 2009 Notice and, as a result, to be required to withhold the 10% EIT when we distribute dividends to our non-resident enterprise shareholders.

Accordingly, we withheld the 10% EIT when we distributed our final dividend for our financial year ended December 31, 2008 in respect of the non-resident enterprise shareholders for PRC tax purposes whose names appeared on our register of members as of the record date for such dividends, and who were not individuals, unless such non-individual shareholders are able to provide documents from the relevant PRC tax authorities confirming that we are not required to withhold the 10% EIT in respect of the dividends that such shareholders are entitled to, on the basis that dividend income between two PRC resident enterprises is exempted from enterprise income tax under the EIT Law. In addition, certain investors hold our shares or ADRs through custodians, nominees, corporate trustees or other intermediaries and the names of these investors do not appear on our register of members. Payments of dividends to such investors are also subject to the 10% EIT withholding. These investors should enquire about the relevant procedures with the relevant custodians, nominees, trustees or other intermediaries if they wish to change the identities of the shareholders on our register of members.

Taxation of Capital Gains

Under the new PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, including capital gains. Because the new EIT Law has only recently taken effect, there remain substantial uncertainties as to its interpretation and application by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

Additional PRC Tax Considerations

Stamp duty. Under the Provisional Regulations of the PRC Concerning Stamp Duty and its implementing rules, both of which became effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our ordinary shares or ADSs outside of the PRC as the PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and protected under PRC law.

Estate tax. The PRC does not currently levy estate tax.

Hong Kong

Taxation of Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us, either by withholding or otherwise, unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of shares and ADSs. Trading gains from the sale of shares or ADSs by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong income tax rates of 16.5% on corporations and 15.0% on individuals. Gains from sales of shares effected on the HKSE will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong income tax would thus arise in respect of trading gains from sales of shares or ADSs realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of 0.1% of the higher of the consideration for or the value of the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares. If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any) and the transferee will be liable for payment of such duty.

The withdrawal of shares upon the surrender of American Depository Receipts, or ADRs, and the issuance of ADRs upon the deposit of shares, will also attract stamp duty at the rate described above unless such withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to The Bank of New York, as depository of the ADSs, or for the account of The Bank of New York does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 became effective on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of a holder of the shares whose death occurs on or after February 11, 2006.

United States

United States Federal Income Taxation

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a tax-exempt organization,
- an insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds shares or ADSs that are a hedge or that are hedged against currency risks or as

part of a straddle or a conversion transaction, or

- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States,
- a corporation organized under the laws of the United States or any States,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15%, provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the shares or ADSs will be qualified dividend income, provided that, in the year that you receive the dividend, the shares or ADSs are readily tradable on an established securities market in the United States.

The dividend is taxable to you when you, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong Dollar payments made, determined at the spot Hong Kong/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date

you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. Dividends will be income from sources outside the United States and, depending on your circumstances, will be either passive income or general income for purposes of computing the foreign tax credit allowable to you. If you are subject to PRC withholding tax (as discussed in “People’s Republic of China—Taxation of Dividends,” above), you must include any such tax withheld from the dividend payment in your gross income, even though you do not in fact receive it. The PRC tax withheld and paid over to the PRC will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a non-corporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the property is held for more than one year. Subject to the paragraph immediately below regarding gain subject to PRC tax, the gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations. Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

However, in the event we are deemed to be a Chinese “resident enterprise” under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if PRC tax were to be imposed on any gain from the disposition of your shares or ADSs (as discussed above in “People’s Republic of China—Taxation of Capital Gains”), the gain may be treated as PRC source income. U.S. Holders should consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of shares or ADSs, including the availability of the foreign tax credit under your particular circumstances.

Passive Foreign Investment Company Rules. We believe that we should not be treated as a passive foreign investment company, or PFIC, for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs or shares:

- at least 75% of our gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns directly or indirectly at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation’s income.

If we are treated as a PFIC and you are a U.S. holder that does not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your shares or ADSs will be taxed as ordinary income.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income, are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

You can read and copy documents referred to in this annual report that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 100 Fifth Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that are filed electronically with the SEC.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risks

Our exposure to financial market risks relates primarily to changes in interest rates and currency exchange rates.

Interest Rate Risk

The People's Bank of China has the sole authority in China to establish the official interest rates for Renminbi-denominated loans. Financial institutions in China set their effective interest rates within the range established by the People's Bank of China. Interest rates and payment methods in the PRC on loans denominated in foreign currencies are set by the financial institutions based on interest rate changes in the international financial market, cost of funds, risk levels and other factors. The fair value of our borrowings is approximately the same as the carrying value. These bank loans, denominated in Renminbi, are borrowed from domestic banks at interest rates that vary in accordance with the standard guidance interest rates announced by relevant PRC Government authorities.

We are subject to risks arising from interest-bearing borrowings, including bank loans, corporate bonds and short-term commercial paper. The majority of our interest-bearing borrowings are loans from banks in the PRC, the majority of which bear variable interest rates. Rise in interest rates will increase the cost of new borrowings and interest expenses of outstanding floating rate debt. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these instruments, and therefore could have a material adverse effect on our financial position. To mitigate our exposure to interest rate risks in connection with our borrowings denominated in foreign currencies, we may enter into designed interest rate swap agreements from time to time in the future.

As at December 31, 2008, we had approximately RMB28.9 billion (2007: approximately RMB35.3 billion) of bank loans, corporate bonds and short-term commercial paper at fixed rates and approximately RMB1.11 billion of bank loans at floating rates (2007: approximately RMB22.1 billion).

The following table provides information, by maturity date, regarding our interest rate-sensitive financial instruments, which consist of short-term and long-term debt obligations, as well as the expected maturity profile of such obligations as of December 31, 2008.

	Expected Maturity						Total	As of
	2009	2010	2011	2012	2013	Thereafter		December 31, 2008
	(RMB equivalent in millions, except interest rates)							Fair Value
Liabilities:								
RMB-denominated loans								
Variable rate	1,114	—	—	—	—	—	1,114	1,114
Average rate ⁽¹⁾	6.14%	—	—	—	—	—	—	—
U.S. dollar-denominated loans								
Fixed rate	33	26	26	26	26	386	523	322
Average rate	0.42%	0.35%	0.34%	0.32%	0.31%	0.17%	—	—
Euro-denominated loans								
Fixed rate	27	28	28	28	27	204	342	257
Average rate	2.17%	2.15%	2.14%	2.12%	2.10%	1.76%	—	—
Japanese yen-denominated loans								
Fixed rate	42	42	42	42	42	24	234	213
Average rate	2.12%	2.12%	2.12%	2.12%	2.12%	2.12%	—	—

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2008.

For the year ended December 31, 2008, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables were held constant, our interest expenses would have increased/decreased by approximately RMB125 million (2007: approximately RMB131 million).

Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully convertible currency. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars (which are pegged to the U.S. dollar), of our net assets, earnings and any declared dividends. For a detailed description of the unitary managed floating rate system used by the PRC Government to set foreign exchange rates, see “Key Information—Selected Financial Data—Exchange Rate Information” under Item 3.

We are exposed to foreign currency risk primarily as a result of our foreign currency borrowings for past purchases of telecommunications equipment from overseas suppliers. In addition, we receive some of our revenues from our international operations and pay-related expenses in foreign currencies. As a result, our foreign currency exposure relates to our foreign currency-denominated debt and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

As of December 31, 2008, we had cash and cash equivalents and short-term bank deposits denominated in foreign currencies amounting to RMB1.32 billion (2007: approximately RMB1.67 billion). As of December 31, 2008, we had bank borrowings denominated in foreign currencies amounting to RMB1.10 billion (2007: approximately RMB4.90 billion).

The following table provides information regarding our foreign currency-sensitive financial instruments, which consist of cash and cash equivalents, short-term and long-term debt obligations and capital commitments as of December 31, 2008 and the expected maturity profile of these debt obligations and capital commitments.

	Expected Maturity					Thereafter	Total	As of
	2009	2010	2011	2012	2013			December 31, 2008
	(RMB equivalent in millions)							Fair Value
Assets:								
Cash and cash equivalents								
U.S. dollars	1,051	—	—	—	—	—	1,051	1,051
HK dollars	197	—	—	—	—	—	197	197
Japanese yen	4	—	—	—	—	—	4	4
EURO dollars	43	—	—	—	—	—	43	43
GBP	20	—	—	—	—	—	20	20
Liabilities:								
U.S. dollar-denominated loans								
	33	26	26	26	26	386	523	322
Euro-denominated loans								
	27	28	28	28	27	204	342	257
Japanese yen-denominated loans								
	42	42	42	42	42	24	234	213
Off-balance sheet commitments:								
Capital commitments authorized and contracted for in U.S. dollars								
	159	—	—	—	—	—		159

As at December 31, 2008, if the RMB had strengthened/weakened by 10% against the foreign currencies, primarily with respect to US dollars and HK dollars, while all other variables were held constant, we would have recognized additional exchange loss/gain of approximately RMB22 million (2007: exchange gain/loss approximately RMB323 million) for foreign currencies-denominated cash and cash equivalents, short-term bank deposits and bank loans.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act of 1934, as amended) as of December 31, 2008, the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act of 1934, as amended) for the Company. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with applicable generally accepted accounting

principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2008, our management conducted an assessment of the effectiveness of our internal control over financial reporting, based on the framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this assessment, our management has concluded that our Company's internal control over financial reporting as of December 31, 2008 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing on page F2.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We are fully aware of the importance of maintaining and improving our controls and procedures in relation to internal control over financial reporting. Our management, with the oversight of our audit committee and board of directors, is committed to having proper internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Wong Wai Ming is an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. Mr. Wong satisfies the "independence" requirements of Section 303A of the NYSE Manual. For Mr. Wong's biographical information, see "A. Directors and Senior Management" under Item 6.

Item 16B. Code of Ethics

In 2003, we adopted a code of ethics that applies to our chief executive officer, chief financial officer, president, vice-presidents, controller and other senior officers. A copy of our Code of Ethics for Senior Officers was filed as Exhibit 11.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2003. In February 2006, we adopted another code of ethics that applies to our employees generally. A copy of our Code of Ethics for Employees is filed as Exhibit 11.2 to our annual report on Form 20-F for the fiscal year ended December 31, 2005. Copies of our Code of Ethics for Senior Officers and Code of Ethics for Employees may also be downloaded from our website at <http://www.chinaunicom.com.hk>. Information on that website is not a part of this annual report on Form 20-F.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and other fees our principal accountant billed for products and services they provided for audit services, audit-related services, tax services and other services for each of the fiscal years 2007 and 2008:

	For the years ended December 31,	
	2007	2008
	(in RMB thousands)	
Audit services	122,578	106,850
Audit-related services	5,989	23,347
Tax services	591	111
Other	435	165
Total	<u>129,593</u>	<u>130,473</u>

Audit services include the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of the Company and its subsidiaries. Audit services in 2007 and 2008 also include audit work in connection with the audit of the Company's internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. They also include performing agreed-upon procedures on quarterly financial statements and pre-issuance reviews of interim financial statements.

Audit-related services include other assurance and related services that can be reasonably provided by the independent auditor. In 2008, audit-related services mainly include the agreed-upon procedures and other related services in relation to the circulars regarding the disposal of our CDMA business and the scheme of arrangement document regarding the merger with China Netcom.

Tax services include the assistance with compliance and reporting of enterprise taxes.

Other services include providing subsidiaries of the Company with permitted translation service and providing the Company with access to an online database of global financial reporting literature regarding new pronouncements and guidance.

Audit Committee's Pre-approval Policies and Procedures

The Audit Committee of our Board of Directors is responsible, among other things, for the oversight of the external auditor subject to the requirements of the Hong Kong Companies Ordinance and our Articles of Association. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services to be provided by our independent accountants. Under the policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services; or (ii) require the specific pre-approval of the Audit Committee. General approval applies to services of a recurring and predictable nature. These types of services, once approved by the Audit Committee, will not require further approval in the future, except when actual fees and expenses exceed pre-approved budget levels. In such a case, the Audit Committee may authorize one of its members to approve budget increases subject to the requirement that such member provide a report on his decision to approve or deny an application for budget increases to the Audit Committee at an Audit Committee meeting held immediately after such member grants or denies the approval.

Specific pre-approval applies to all other services. These services must be approved by the Audit Committee on a case-by-case basis after an application including proposed budget and scope of services to be provided by our independent auditors is submitted to the Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a company listed on both the HKSE and the NYSE, we are subject to applicable Hong Kong laws and regulations, including the HKSE Listing Rules, and the Hong Kong Companies Ordinance, as well as applicable U.S. federal securities laws, including the Exchange Act and the Sarbanes-Oxley Act. In addition, we are subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. As a non-U.S. issuer, we are not required to comply with all of the corporate governance listing standards of the NYSE.

The following is a summary of the significant differences between our corporate governance practices and those required to be followed by U.S. companies under the listing standards of the NYSE.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors on its board of directors. As a listed company in Hong Kong, we are subject to the requirement under the HKSE Listing Rules that at least three members of our board of directors be independent as determined under the HKSE Listing Rules. The standards for establishing independence under the HKSE Listing Rules differ from those set forth in the NYSE Listed Company Manual. We currently have five independent directors out of a total of 11 directors.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. Under the applicable Hong Kong law, our board of directors is required to meet regularly and at least four times a year, involving active participation by a majority of the directors and affording all directors an opportunity to include matters on the agenda. In addition, when a board meeting considers a matter in which a substantial shareholder or a director has a conflict of interest, the independent directors with no material interest in such matter must be present. Furthermore, it has been our practice to organize exclusive meetings for our independent non-executive directors at least annually.

Section 303A.04 of the NYSE Listed Company Manual provides that (i) a listed company must have a nominating/corporate governance committee that consists entirely of independent directors and (ii) the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which shall include, among others, the development and recommendation of corporate governance guidelines to the board of directors. The HKSE Listing Rules also contain a recommended best practice that the listed companies are recommended to establish a nomination committee which consists of a majority of independent non-executive directors. We currently do not have a nomination or corporate governance committee. Our board of directors is directly in charge of developing our corporate governance guidelines.

Section 303A.07 of the NYSE Listed Company Manual also provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then, the board of directors of the listed company must (i) determine that such simultaneous service would not impair the ability of such member to effectively serve on the audit committee of the listed company and (ii) disclose such determination. We are not required, under applicable Hong Kong laws, to make such determination.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While we are not required to adopt any similar code under the HKSE Listing Rules, we, as required under the Sarbanes-Oxley Act, have adopted a code of ethics that is applicable to our chief executive officer, president, vice presidents, chief financial officer, principal accounting officer and general managers and deputy general managers of each of our departments, provincial branches and local branches or persons performing similar functions. We have also adopted a code of ethics that is applicable to all of our employees.

PART III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

See “Index to Consolidated Financial Statements” for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
1.1	Memorandum of Association of Unicom, dated January 27, 2000 ⁽¹⁾ .
1.2	Amended Articles of Association of Unicom (as amended on September 16, 2008).*
2.1	Deposit Agreement, among Unicom, The Bank of New York, as Depositary, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt. ⁽²⁾
2.2	Form of specimen certificate for the shares. ⁽¹⁾
4.1	Reorganization Agreement between Unicom Group and CUCL, dated April 21, 2000 (together with English translation). ⁽¹⁾
4.2	Equity Transfer Agreement among Unicom Group, Unicom HK, Unicom BVI and Unicom, dated April 21, 2000. ⁽¹⁾
4.3	Trademark License Agreement between Unicom Group and CUCL, dated May 25, 2000 (together with English translation). ⁽¹⁾
4.4	Transmission Line Lease and Services Agreement between Unicom Group, CUCL and Guoxin Paging, dated August 1, 2001 (together with English translation). ⁽¹⁾
4.5	Reorganization Agreement between Unicom Group and Unicom New Century, dated November 18, 2002. (English translation) ⁽³⁾
4.6	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New Century, dated November 20, 2002. (English translation) ⁽³⁾
4.7	Reorganization Agreement between Unicom Group and Unicom New World, dated November 4, 2003. (English translation) ⁽⁴⁾
4.8	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New World, dated November 20, 2003. (English translation) ⁽⁴⁾
4.9	Conditional Sales and Purchase Agreement between China Unicom (Hong Kong) Group Limited and our Company with respect to the acquisition of Unicom International, dated July 28, 2004. ⁽⁵⁾
4.10	Subscription Agreement between Unicom and SK Telecom Co., Ltd., dated June 20, 2006. ⁽⁶⁾
4.11	CDMA Network Capacity Lease Agreement among Unicom New Horizon, the A Share Company and Unicom Group, dated October 26, 2006. ⁽⁷⁾
4.12	Transfer Agreement of the CDMA Network Capacity Lease Agreement between the A Share Company and CUCL, dated October 26, 2006. (English translation) ⁽⁷⁾
4.13	Asset Transfer Agreement between CUCL and Unicom Group in connection with the acquisition of Unicom Guizhou, dated November 16, 2007. (English translation) ⁽⁸⁾

Exhibit Number	Description of Exhibit
4.14	Supplement Agreement among Unicom New Horizon, Unicom Group, CUCL and the A Share Company in connection with the acquisition of Unicom Guizhou and the 2006 CDMA Network Capacity Lease Agreement, dated November 16, 2007. ⁽⁸⁾
4.15	CDMA Business Transfer Framework Agreement between us, CUCL and China Telecom dated as of June 2, 2008. (English translation) ⁽⁸⁾
4.16	CDMA Business Disposal Agreement among Unicom, CUCL and China Telecom, dated July 27, 2008. (English summary)*
4.17	Business and Assets Transfer Agreement among Unicom Parent, Netcom Parent and the A Share Company, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation) ⁽⁹⁾
4.18	Transfer Agreement between the A Share Company and CUCL, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation) ⁽⁹⁾
4.19	Network Lease Agreement between CUCL and Unicom New Horizon, relating to the lease of telecommunications networks in 21 provinces in southern China by CUCL from Unicom New Horizon, dated December 16, 2008. (English translation) ⁽⁹⁾
4.20	Assets and Liabilities Transfer Agreement between CNC China and Netcom Group, dated June 23, 2004. (English translation) ⁽¹⁰⁾
4.21	Asset Injection Agreement among Netcom Group, Netcom BVI, CNC China and China Netcom, dated June 29, 2004. (English translation) ⁽¹⁰⁾
4.22	Letter of Undertakings by Netcom Group, dated September 5, 2005. (English translation) ⁽¹⁰⁾
4.23	Restructuring Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation) ⁽¹⁰⁾
4.24	Non-Competition Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation) ⁽¹⁰⁾
4.25	Trademark Licensing Agreement among CNC China, Netcom Group and China Netcom, dated October 8, 2004. (English translation) ⁽¹⁰⁾
4.26	Conditional Sale and Purchase Agreement among China Netcom, Netcom BVI and Netcom Group, relating to the acquisition of CNC New Horizon BVI, dated September 12, 2005.*
4.27	Asset Transfer Agreement between China Netcom and Netcom Group, relating to the sale of China Netcom's telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality, dated January 15, 2007.*
4.28	Domestic Interconnection Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.29	International Long Distance Voice Services Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.30	Engineering and Information Technology Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.31	Master Sharing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.32	Property Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.33	Materials Procurement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*

Exhibit Number	Description of Exhibit
4.34	Ancillary Telecommunications Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.35	Support Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.36	Telecommunications Facilities Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)*
4.37	Information and Communications Technology Agreement between China Netcom System Integration and Netcom Group, dated November 6, 2007. (English translation)*
4.38	Equity Interest Transfer Agreement between China Netcom Group System Integration and China Netcom Group Beijing Communications Corporation, relating to the acquisition of Design Institute, dated December 5, 2007. (English translation) ⁽¹¹⁾
4.39	Framework Agreement for Interconnection Settlement between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.40	Framework Agreement for Engineering and Information Technology Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.41	Framework Agreement for Property Leasing Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.42	Framework Agreement for Ancillary Telecommunications Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.43	Framework Agreement for Support Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.44	Framework Agreement for Telecommunications Facilities Leasing between CUCL and Netcom Group, dated August 12, 2008. (English translation)*
4.45	Comprehensive Services Agreement between Unicom Group and the A Share Company, dated August 12, 2008. (English translation)*
4.46	Transfer Agreement among the A Share Company, CUCL and CNC China, in connection with the Comprehensive Services Agreement, dated August 12, 2008. (English translation)*
4.47	Merger Agreement between CUCL and CNC China, relating to the merger between CUCL and CNC China, dated October 15, 2008. (English translation)*
4.48	Pre-Global Offering Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009.*
4.49	Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009.*
4.50	Special Purpose Share Option Scheme, adopted by ordinary resolution of the Company on September 16, 2008 and amended by ordinary resolutions of the Company on May 26, 2009.*
8.1	List of our significant subsidiaries.*
11.1	Code of Ethics for Senior Officers. ⁽⁴⁾
11.2	Employee Code of Ethics. (English translation) ⁽⁶⁾
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).*
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b).*
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).*

We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities Exchange Commission upon request.

-
- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11938) filed with the SEC in connection with our initial public offering in June 2000.
 - (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-11952) filed with the SEC with respect to American Depositary Shares representing our shares.
 - (3) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2002.
 - (4) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2003.
 - (5) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2004.
 - (6) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2005.
 - (7) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2006.
 - (8) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2007.
 - (9) Incorporated by reference to Schedule 13D/A (File No. 5-51154) filed by China Netcom Group Corporation (BVI) Limited, China Network Communications Group Corporation, China United Network Communications Group Company Limited, China United Telecommunications Corporation Limited, and China Unicom (BVI) Limited, filed on December 24, 2008.
 - (10) Incorporated by reference to China Netcom's Registration Statement on Form F-1 (File No. 333-119786) filed with the SEC in connection with its initial public offering in November 2004.
 - (11) Incorporated by reference to China Netcom's Annual Report on Form 20-F (File No. 1-32332) for the year ended December 31, 2007.
- * Filed herewith.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 23, 2009

CHINA UNICOM (HONG KONG) LIMITED

By: /s/ Chang Xiaobing
Name: Chang Xiaobing
Title: Chairman and Chief Executive Officer

INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

CHINA UNICOM (HONG KONG) LIMITED AND ITS SUBSIDIARIES

[Report of Independent Registered Public Accounting Firm](#)

[Consolidated balance sheets as of December 31, 2007 and 2008](#)

[Consolidated statements of income for the years ended December 31, 2007 and 2008](#)

[Consolidated statements of changes in equity for the years ended December 31, 2007 and 2008](#)

[Consolidated statements of cash flows for the years ended December 31, 2007 and 2008](#)

[Notes to the consolidated financial statements](#)

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHINA UNICOM (HONG KONG) LIMITED
(FORMERLY KNOWN AS CHINA UNICOM LIMITED)**

(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") with limited liability)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of China Unicom (Hong Kong) Limited and its subsidiaries (together, the "Group") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Group's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Annual Report on Internal Control Over Financial Reporting included in Item 15 of this Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Group's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers

Hong Kong
June 18, 2009

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2008
(Expressed in millions)

	Note	2007 As restated (Note 2.2) RMB	2008 RMB	2008 US\$
ASSETS				
Non-current assets				
Property, plant and equipment	6	276,110	283,912	41,614
Lease prepayments	7	8,063	7,799	1,143
Goodwill	8	3,144	2,771	406
Deferred income tax assets	9	2,514	5,326	781
Other assets	10	<u>12,081</u>	<u>8,996</u>	<u>1,319</u>
		<u>301,912</u>	<u>308,804</u>	<u>45,263</u>
Current assets				
Inventories and consumables	12	2,815	1,171	172
Accounts receivable, net	13	11,014	8,587	1,258
Prepayments and other current assets	14	4,314	2,427	356
Amounts due from ultimate holding company	37.1	—	15	2
Amounts due from related parties	37.1	502	439	64
Amounts due from domestic carriers	37.2	816	865	127
Proceeds receivable for the disposal of the CDMA Business	33	—	13,140	1,926
Short-term bank deposits	15	735	238	35
Cash and cash equivalents	16	<u>11,979</u>	<u>9,238</u>	<u>1,354</u>
		<u>32,175</u>	<u>36,120</u>	<u>5,294</u>
Total assets		<u>334,087</u>	<u>344,924</u>	<u>50,557</u>
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	17	1,437	2,329	341
Share premium	17	64,320	166,784	24,446
Reserves	18	76,275	(23,183)	(3,398)
Retained profits				
- Proposed final dividend	34	6,427	4,754	697
- Others		<u>30,053</u>	<u>56,026</u>	<u>8,212</u>
		<u>178,512</u>	<u>206,710</u>	<u>30,298</u>
Minority interest in equity		<u>4</u>	<u>—</u>	<u>—</u>
Total equity		<u>178,516</u>	<u>206,710</u>	<u>30,298</u>

The accompanying notes are an integral part of the consolidated financial statements.

	Note	2007 As restated (Note 2.2) RMB	2008 RMB	2008 US\$
LIABILITIES				
Non-current liabilities				
Long-term bank loans	19	16,086	997	146
Corporate bonds	20	2,000	7,000	1,026
Deferred income tax liabilities	9	17	16	2
Deferred revenue		5,246	3,383	496
Amounts due to related parties	37.1	6,169	—	—
Other obligations	22	<u>2,007</u>	<u>1,599</u>	<u>235</u>
		<u>31,525</u>	<u>12,995</u>	<u>1,905</u>
Current liabilities				
Payables and accrued liabilities	23	49,312	65,687	9,628
Taxes payable		4,990	11,304	1,657
Amounts due to ultimate holding company	37.1	821	—	—
Amounts due to related parties	37.1	5,656	2,727	400
Amounts due to domestic carriers	37.2	510	538	79
Payables in relation to the disposal of the CDMA Business	37.2	—	4,232	620
Dividend payable		—	149	22
Short-term commercial paper	24	20,000	10,000	1,466
Short-term bank loans	25	11,850	10,780	1,580
Current portion of long-term bank loans	19	7,411	1,216	178
Current portion of obligations under finance leases		103	—	—
Current portion of deferred revenue		3,103	2,200	322
Current portion of other obligations	22	3,381	3,012	442
Advances from customers		<u>16,909</u>	<u>13,374</u>	<u>1,960</u>
		<u>124,046</u>	<u>125,219</u>	<u>18,354</u>
Total liabilities		<u>155,571</u>	<u>138,214</u>	<u>20,259</u>
Total equity and liabilities		<u>334,087</u>	<u>344,924</u>	<u>50,557</u>
Net current liabilities		<u>(91,871)</u>	<u>(89,099)</u>	<u>(13,060)</u>
Total assets less current liabilities		<u>210,041</u>	<u>219,705</u>	<u>32,203</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008
(Expressed in millions, except per share data)

	Note	2007 As restated (Note 2.2) RMB	2008 RMB	2008 US\$
Continuing operations				
Revenue	5, 26	150,687	148,906	21,826
Interconnection charges		(11,214)	(12,011)	(1,761)
Depreciation and amortization		(47,369)	(47,678)	(6,988)
Networks, operations and support expenses	28	(16,022)	(16,577)	(2,430)
Employee benefit expenses	31	(17,540)	(18,902)	(2,771)
Other operating expenses	29	(32,776)	(33,582)	(4,922)
Finance costs	30	(3,231)	(2,411)	(353)
Interest income		285	239	35
Impairment loss on property, plant and equipment	6	—	(11,837)	(1,735)
Realized loss on changes in fair value of derivative component of the convertible bonds	21	(569)	—	—
Other income — net	27	4,990	1,994	292
Income from continuing operations before income tax		27,241	8,141	1,193
Income tax expenses	9	(7,083)	(1,801)	(264)
Income from continuing operations		20,158	6,340	929
Discontinued operations				
Income from discontinued operations	33	654	1,438	211
Gain on the disposal of discontinued operations	33	626	26,135	3,831
Net income		<u>21,438</u>	<u>33,913</u>	<u>4,971</u>
Attributable to:				
Equity holders of the Company		21,437	33,912	4,971
Minority interest		1	1	—
		<u>21,438</u>	<u>33,913</u>	<u>4,971</u>
Proposed final dividend	34	6,427	4,754	697
Dividend paid during the year	34	5,885	6,231	913

The accompanying notes are an integral part of the consolidated financial statements.

	<u>Note</u>	<u>2007</u> <u>As restated</u> <u>(Note 2.2)</u> <u>RMB</u>	<u>2008</u> <u>RMB</u>	<u>2008</u> <u>US\$</u>
Earnings per share for income attributable to the equity holders of the Company during the year				
Basic earnings per share	35	<u>0.93</u>	<u>1.43</u>	<u>0.21</u>
Diluted earnings per share	35	<u>0.92</u>	<u>1.42</u>	<u>0.21</u>
Earnings per share for income from continuing operations attributable to the equity holders of the Company during the year				
Basic earnings per share	35	<u>0.87</u>	<u>0.27</u>	<u>0.04</u>
Diluted earnings per share	35	<u>0.86</u>	<u>0.27</u>	<u>0.04</u>
Earnings per share for income from discontinued operations attributable to the equity holders of the Company during the year				
Basic earnings per share	35	<u>0.06</u>	<u>1.16</u>	<u>0.17</u>
Diluted earnings per share	35	<u>0.06</u>	<u>1.15</u>	<u>0.17</u>

The accompanying notes are an integral part of the consolidated financial statements.

2007 (As restated)

1,437

64,320

516

1,113

17,933

56,713

36,480

178,512

4

178,516

The accompanying notes are an integral part of the consolidated financial statements.

	<u>Share capital</u>	<u>Share premium</u>	<u>Employee share-based compensation reserve</u>	<u>Revaluation reserve</u>	<u>Statutory reserve</u>	<u>Other reserve</u>	<u>Retained profits</u>	<u>Total</u>	<u>Minority interest</u>	<u>Total equity</u>
Balance at January 1, 2008 (As previously reported)	1,437	64,320	363	302	3,737	(433)	27,488	97,214	4	97,218
Change of accounting policy on measurement of property, plant and equipment (Note 2.2)	—	—	—	(86)	—	—	(668)	(754)	—	(754)
Adjusted for 2008 Business Combination under common control (Note 1)	—	—	153	897	14,196	57,146	9,660	82,052	—	82,052
Balance at January 1, 2008 (As restated)	1,437	64,320	516	1,113	17,933	56,713	36,480	178,512	4	178,516
Currency translation differences	—	—	—	—	—	(29)	—	(29)	—	(29)
Net income and expense recognized directly in equity	—	—	—	—	—	(29)	—	(29)	—	(29)
Income for the year from continuing operations	—	—	—	—	—	—	6,340	6,340	—	6,340
Income for the year from discontinued operations	—	—	—	—	—	—	27,572	27,572	1	27,573
Total recognized income and expense for 2008	—	—	—	—	—	(29)	33,912	33,883	1	33,884
Transfer to retained profits in respect of depreciation differences on revalued assets	—	—	—	(977)	—	(70)	1,047	—	—	—
Transfer to statutory reserve	—	—	—	—	886	—	(886)	—	—	—
Appropriation to statutory reserves (Note 18)	—	—	—	—	3,542	—	(3,542)	—	—	—
Employee share option scheme:										
-Value of employee services	—	—	96	—	—	—	—	96	—	96
-Issuance of shares upon exercise of options (Note 32)	3	252	(72)	—	—	267	—	450	—	450
Issuance of shares for 2008 Business Combination under common control (Note 1)	889	102,212	—	—	—	(103,101)	—	—	—	—
Transfer out upon the disposal of the CDMA Business	—	—	—	—	—	—	—	—	(5)	(5)
Dividends relating to 2007 (Note 34)	—	—	—	—	—	—	(6,231)	(6,231)	—	(6,231)
Balance at December 31, 2008	<u>2,329</u>	<u>166,784</u>	<u>540</u>	<u>136</u>	<u>22,361</u>	<u>(46,220)</u>	<u>60,780</u>	<u>206,710</u>	<u>—</u>	<u>206,710</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008
(Expressed in millions)

	<u>Note</u>	<u>2007</u> <u>As restated</u> <u>(Note 2.2)</u> <u>RMB</u>	<u>2008</u> <u>RMB</u>	<u>2008</u> <u>US\$</u>
Cash flows from operating activities				
Cash generated from operations of continuing operations	(a)	76,608	67,204	9,850
Interest received		287	246	36
Interest paid		(3,511)	(3,011)	(441)
Income tax paid		<u>(8,128)</u>	<u>(7,765)</u>	<u>(1,138)</u>
Net cash inflow from operating activities of continuing operations		65,256	56,674	8,307
Net cash inflow from operating activities of discontinued operations		<u>1,225</u>	<u>656</u>	<u>96</u>
Net cash inflow from operating activities		<u>66,481</u>	<u>57,330</u>	<u>8,403</u>
Cash flows from investing activities				
Purchase of property, plant and equipment		(41,798)	(47,747)	(6,999)
Proceeds from disposal of property, plant and equipment and other assets		145	252	37
Consideration for purchase of business and entities under common control		(3,139)	(5,880)	(862)
Decrease/(increase) in short-term bank deposits		(434)	497	73
Purchase of other assets		<u>(2,415)</u>	<u>(1,612)</u>	<u>(236)</u>
Net cash outflow from investing activities of continuing operations		(47,641)	(54,490)	(7,987)
Net cash inflow from investing activities of discontinued operations		<u>3,078</u>	<u>29,489</u>	<u>4,322</u>
Net cash outflow from investing activities		<u>(44,563)</u>	<u>(25,001)</u>	<u>(3,665)</u>

The accompanying notes are an integral part of the consolidated financial statements.

	Note	2007 As restated (Note 2.2) RMB	2008 RMB	2008 US\$
Cash flows from financing activities				
Proceeds from exercise of share options		532	450	66
Proceeds from short-term commercial paper		20,000	10,000	1,466
Proceeds from short-term bank loans		63,837	50,714	7,433
Proceeds from long-term bank loans		2,559	2,888	423
Proceeds from issuance of corporate bonds		2,000	5,000	733
Proceeds from related party loans		2,249	—	—
Repayment of short-term commercial paper		(16,646)	(20,000)	(2,931)
Repayment of short-term bank loans		(82,965)	(51,784)	(7,590)
Repayment of long-term bank loans		(13,416)	(23,832)	(3,493)
Repayment of capital element of finance lease payments		(890)	(101)	(15)
Repayment of related party loans		—	(2,222)	(326)
Payment of prior years distribution		(1,180)	(101)	(15)
Dividends paid to equity holders	34	(5,885)	(6,082)	(891)
Net cash outflow from financing activities of continuing operations		(29,805)	(35,070)	(5,140)
Net cash outflow from financing activities of discontinued operations		—	—	—
Net cash outflow from financing activities		<u>(29,805)</u>	<u>(35,070)</u>	<u>(5,140)</u>
Net cash outflow from continuing operations		(12,190)	(32,886)	(4,820)
Net cash inflow from discontinued operations	33	4,303	30,145	4,418
Net decrease in cash and cash equivalents		(7,887)	(2,741)	(402)
Cash and cash equivalents, beginning of year		19,866	11,979	1,756
Cash and cash equivalents, end of year	16	<u>11,979</u>	<u>9,238</u>	<u>1,354</u>
Analysis of the balances of cash and cash equivalents:				
Cash balances		8	6	1
Bank balances		11,971	9,232	1,353
		<u>11,979</u>	<u>9,238</u>	<u>1,354</u>

The accompanying notes are an integral part of the consolidated financial statements.

(a) The reconciliation of income from continuing operations before income tax to cash generated from operations of continuing operations is as follows:

	2007 As restated (Note 2.2) RMB	2008 RMB	2008 US\$
Income from continuing operations before income tax	27,241	8,141	1,193
Adjustments for:			
Depreciation and amortization	47,369	47,678	6,988
Interest income	(285)	(239)	(35)
Finance costs	2,922	2,135	313
Loss on disposal of property, plant and equipment and other assets	140	2	—
Gain on non-monetary assets exchange	(386)	(1,305)	(191)
Share-based compensation costs	170	84	12
Provision for doubtful debts	2,200	2,900	425
Impairment loss on property, plant and equipment	—	11,837	1,735
Realized loss on changes in fair value of derivative component of the convertible bonds	569	—	—
Changes in working capital:			
Increase in accounts receivable	(2,400)	(1,683)	(247)
(Increase)/decrease in inventories	16	(109)	(16)
Decrease in other assets	1,619	833	122
Decrease/(increase) in prepayments and other current assets	(1,028)	669	98
Decrease/(increase) in amounts due from related parties	(24)	63	9
(Increase)/decrease in amounts due from domestic carriers	28	(49)	(7)
(Decrease)/increase in payables and accrued liabilities	2,376	(991)	(145)
Increase in advances from customers	407	1,159	170
Decrease in deferred revenue	(2,899)	(2,987)	(437)
Decrease in amounts due to ultimate holding company	(369)	(735)	(108)
Decrease in amounts due to related parties	(797)	(995)	(146)
Increase/(decrease) in amounts due to domestic carriers	(261)	796	117
Cash generated from operations of continuing operations	<u>76,608</u>	<u>67,204</u>	<u>9,850</u>

(b) Major non-cash transactions:

- (i) Payables to equipment suppliers for construction-in-progress during 2008 increased by approximately RMB19.7 billion (2007: approximately RMB1.3 billion).
- (ii) On August 20, 2007, convertible bonds of USD1 billion outstanding as of December 31, 2006 were fully converted into 899,745,075 ordinary shares of HKD0.10 each of the Company.
- (iii) On October 15, 2008, the Company issued 10,102,389,377 ordinary shares of HKD0.10 each at a price of HKD11.60 per share with fair value or total price of approximately RMB103.1 billion (equivalent to approximately HKD117.2 billion) in exchange for the entire issued share capital of China Netcom Group Corporation (Hong Kong) Limited. Please refer to Note 1 and Note 17 for details.
- (iv) For the years ended December 31, 2007 and 2008, the Group replaced copper cables in some fixed-line network infrastructure with optical fibers and related equipment. Some of this replacement was done through non-monetary assets exchanges with suppliers, through which optical fibers and related equipment were received in exchange for the Group's own copper cables. The cost of the assets received was recorded at the fair value of the assets surrendered. In 2008, the net book value and fair value of copper cables surrendered were RMB805 million (2007: RMB182 million) and RMB2,110 million (2007: RMB568 million), respectively. A gain on the non-monetary assets exchange of RMB1,305 million (2007: RMB386 million) was recognized in the consolidated statement of income for the year ended December 31, 2008.

The accompanying notes are an integral part of the consolidated financial statements.

CHINA UNICOM (HONG KONG) LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts expressed in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the “Company”) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on February 8, 2000. On October 15, 2008, the name of the Company was changed from “China Unicom Limited 中國聯通股份有限公司” to “China Unicom (Hong Kong) Limited 中國聯合網絡通信(香港)股份有限公司”. Prior to the disposal of the CDMA cellular business to China Telecom Corporation Limited (“China Telecom”) and the merger with China Netcom Group Corporation (Hong Kong) Limited (“China Netcom”) on October 1, 2008 and October 15, 2008, respectively, as described below, the principal activities of the Company are investment holding and the Company’s subsidiaries were principally engaged in the provision of GSM and CDMA cellular, long distance, data and Internet services in the PRC. Upon the merger with China Netcom, the Company’s subsidiaries also provide fixed-line voice and value-added services, broadband and other Internet-related services, information communications technology services, business and data communications services and advertising and media services (hereinafter collectively referred to as the “Fixed-line business”) in the PRC. The GSM and CDMA businesses are hereinafter collectively referred to as the “Cellular Business”. The Company and its subsidiaries are hereinafter referred to as the “Group”. The address of its registered office is 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (“SEHK”) on June 22, 2000 and the American Depositary Shares (“ADS”) of the Company were listed on the New York Stock Exchange on June 21, 2000.

The immediate holding company of the Company is China Unicom (BVI) Limited (“Unicom BVI”). The majority of the equity interest in Unicom BVI is owned by China United Telecommunications Corporation Limited (“A Share Company”, a joint stock company incorporated in the PRC on December 31, 2001, with its A shares listed on the Shanghai Stock Exchange on October 9, 2002). The majority of the equity interest in A Share Company is owned by China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation, a state-owned enterprise established in the PRC, hereinafter referred to as “Unicom Group”). In connection with the merger between the Company and China Netcom, Unicom BVI and China Netcom Group Corporation (BVI) Limited (“Netcom BVI”, the immediate holding company of China Netcom) entered into a concert party agreement on September 22, 2008, pursuant to which each of Unicom BVI and Netcom BVI will become persons acting in concert under the Hong Kong Takeovers Code in respect of their aggregate shareholding in the Company and agree, amongst others, to cooperate actively to obtain or consolidate control of the Company following completion of the merger. The directors of the Company consider Unicom Group to be the ultimate holding company of the Company.

On November 15, 2008, the Company was notified by its substantial shareholders, Unicom BVI and Netcom BVI, that their respective parent companies, namely, Unicom Group and China Network Communications Group Corporation (a state-owned enterprise established in the PRC, the parent company of Netcom BVI, hereinafter referred to as “Netcom Group”), have agreed to undertake a merger (the “Parent Merger”). On January 6, 2009, the Company was notified by its substantial shareholders that the Parent Merger, through the absorption of Netcom Group by Unicom Group has been approved by the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) and has become effective. As a result of the Parent Merger, Unicom Group has assumed all the rights and obligations of Netcom Group, all the assets, liabilities and business of Netcom Group including the connected transaction agreements with the Group vested in Unicom Group. Netcom Group will be deregistered and Unicom Group remains the ultimate holding company of the Company.

Disposal of the Group's CDMA business to China Telecom

On June 2, 2008, the Company, China United Network Communications Corporation Limited (“CUCL”, formerly known as “China Unicom Corporation Limited”, a wholly-owned subsidiary of the Company) and China Telecom entered into a CDMA business framework agreement (“the Framework Agreement”), which set out the terms and conditions on which the Company, CUCL and China Telecom would proceed with the CDMA business disposal whereby CUCL would sell, and China Telecom would purchase, the CDMA business operated by the Group. The CDMA business was defined in the Framework Agreement to include the CDMA mobile telecommunication operations, and its related assets (including certain jointly used CDMA base stations to be agreed between CUCL and China Telecom) and liabilities owned and operated by CUCL. Pursuant to the Framework Agreement, the consideration for the proposed CDMA business disposal was RMB43.8 billion and was payable by China Telecom to the Group in cash in three installments. The consideration was subject to a price adjustment mechanism based on the CDMA service revenue generated by the Group for the six months ended June 30, 2007 and June 30, 2008. Based on the CDMA service revenue generated by the Group for the six months ended June 30, 2007 and June 30, 2008, and as agreed by the Company and China Telecom, there was no subsequent adjustment to the consideration as a result of the price adjustment mechanism. The completion of the proposed CDMA business disposal was subject to various conditions as set forth in the Framework Agreement.

On July 27, 2008, the Company, CUCL and China Telecom further entered into a CDMA business disposal agreement (“the Disposal Agreement”). Pursuant to the Disposal Agreement, the Company and CUCL agreed to sell and China Telecom agreed to purchase: (i) the entire CDMA business, which is owned and operated by CUCL, together with the assets of CUCL which are relevant to the CDMA operations and the rights and liabilities of CUCL relating to its CDMA subscribers, immediately prior to the completion date; (ii) the entire equity interest in China Unicom (Macau) Company Limited (“Unicom Macau”, a subsidiary of the Company); and (iii) 99.5% of the equity interest in Unicom Huasheng Telecommunications Technology Company Limited (“Unicom Huasheng”, a subsidiary of CUCL) representing the entire equity interest in Unicom Huasheng held by CUCL (collectively referred to as the “CDMA Business”). The scope of the CDMA Business was set out in the Disposal Agreement and the detailed items were confirmed by the Company, CUCL and China Telecom in a final list of the detailed items of the CDMA Business.

An extraordinary general meeting of the shareholders of the Company at which the above Disposal Agreement was approved was held on September 16, 2008. As all of the conditions of the CDMA Business disposal as specified in the Disposal Agreement were satisfied or were deemed to have been satisfied, the CDMA Business disposal was completed on October 1, 2008 and the Group recorded a gain on disposal of approximately RMB26.1 billion for the year ended December 31, 2008. For details, please refer to Note 33.

Merger between the Company and China Netcom by way of a scheme of arrangement of China Netcom (hereinafter referred to as the “2008 Business Combination”)

On June 2, 2008, the Company and China Netcom jointly announced that the Company had formally presented a share proposal, an ADS proposal, and an option proposal to the board of directors of China Netcom, and requested China Netcom’s board of directors to put forward the proposals to the shareholders of China Netcom to consider a merger of the Company and China Netcom (“Proposed Merger”) by way of a scheme of arrangement of China Netcom (the “Scheme”) under Section 166 of the Hong Kong Companies Ordinance.

Pursuant to the aforementioned share proposal and ADS proposal, each holder of a China Netcom share or China Netcom ADS was entitled to receive 1.508 new ordinary shares or 3.016 new ADSs of the Company, respectively, for every China Netcom share and China Netcom ADS held. Under the option proposal, the Company would establish a new option plan, and each holder of China Netcom option would be entitled to receive new options of the Company to acquire the Company’s shares in exchange for their outstanding China Netcom options (whether vested or not). The grant of these options would be based on a formula that valued the new options of the Company received by a holder of China Netcom options equivalent to the “see-through” price of that holder’s outstanding China Netcom options.

An extraordinary general meeting of the shareholders of the Company at which the resolutions described above was approved was held on September 16, 2008 and the Scheme was sanctioned by the Hong Kong High Court on October 14, 2008. The consideration for the 2008 Business Combination was approximately HKD117.2 billion which was satisfied by the issuance of 10,102,389,377 ordinary shares of HKD0.10 each of the Company. As all of the conditions of the above proposals and the Scheme as specified in the Scheme document had been satisfied, the Scheme became effective on October 15, 2008.

Incorporation of Unicom Huakai Telecommunications Company Limited (“Unicom Huakai”)

On August 19, 2008, CUCL established a wholly-owned subsidiary, Unicom Huakai, which is principally engaged in sales of handsets and telecommunications equipment and 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.

Incorporation of China Unicom Mobile Network Company Limited (“Unicom Mobile Network”)

On December 31, 2008, CUCL established a wholly-owned subsidiary, Unicom Mobile Network, which is principally engaged in construction and maintenance of the Group’s networks. The paid-in capital of Unicom Mobile Network is RMB500 million.

Proposed merger between CUCL and China Netcom (Group) Company Limited (a wholly-owned foreign enterprise established in the PRC, hereinafter referred to as “CNC China”, a wholly-owned subsidiary of China Netcom)

On October 15, 2008, as part of the Company’s integration with China Netcom, the Company entered into an agreement with three of its wholly-owned subsidiaries, namely (i) China Netcom; (ii) CUCL; and (iii) CNC China, pursuant to which CUCL would merge with, and absorb, CNC China. The merged company would retain the name of China United Network Communications Corporation Limited and would remain a wholly-owned subsidiary of the Company. The merger between CUCL and CNC China became effective on January 1, 2009.

2007 disposal and business combination activities

- **Disposal of the fixed-line telecommunications operations in Guangdong province and Shanghai municipality branches (“Guangdong and Shanghai Branches”)**

On January 15, 2007, the Company’s wholly-owned subsidiary, CNC China entered into an assets transfer agreement with Netcom Group. Pursuant to the agreement, CNC China agreed to sell its assets and liabilities in relation to its fixed-line telecommunications operations in Guangdong and Shanghai Branches in the PRC to Netcom Group for cash consideration of RMB3.5 billion. The disposal was completed on February 28, 2007 upon the approval granted from the Ministry of Industry and Information Technology (“MIIT”, the former Ministry of Information Industry has been consolidated into the MIIT).

- **Purchase of assets and business of Guizhou branch of Unicom Group**

Pursuant to an asset transfer agreement entered between CUCL and Unicom Group on November 16, 2007, CUCL agreed to purchase the GSM cellular telecommunication assets and business, and the CDMA cellular telecommunication business (operated through a leasing of CDMA network capacity from Unicom New Horizon Mobile Telecommunications Company Limited (“Unicom New Horizon”, a wholly-owned subsidiary of Unicom Group)) of Guizhou branch of Unicom Group (“Guizhou Business”) at a cash consideration of RMB880 million. In addition, pursuant to the asset transfer agreement, the income or loss of the Guizhou Business for the period from December 31, 2006 to December 31, 2007 (i.e., the effective date of the acquisition) was transferred to Unicom Group.

- **Acquisition of Beijing Telecommunications Planning and Designing Institute Corporation Limited (“Beijing Telecom P&D Institute”)**

On December 5, 2007, China Netcom Group System Integration Limited Corporation (“System Integration Corporation”), a wholly-owned subsidiary of CNC China, entered into an equity interest transfer agreement with China Netcom Group Beijing Communications Corporation (“Beijing Communications Corporation”, a subsidiary of Netcom Group), pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecom P&D Institute from Beijing Communications Corporation for a total consideration of RMB299 million. The acquisition was completed on December 31, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 First-time Adoption of International Financial Reporting Standards (“IFRSs”) and Statement of Compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the IASB. Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These financial statements also comply with HKFRSs, which are consistent with IFRSs, as well as the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK and the requirements of the Hong Kong Companies Ordinance.

Although HKFRSs have been fully converged with IFRSs in all material respects since January 1, 2005, these financial statements are the first published financial statements in which the Group makes an explicit and unreserved statement of compliance with IFRSs. Therefore, in preparing these financial statements, management has given due consideration to the requirements of IFRS 1, “First-time Adoption of International Financial Reporting Standards”. As the Group’s financial statements for the year ended December 31, 2008 are the first annual financial statements that comply with IFRSs and HKFRSs, the Group is required to establish its IFRS accounting policies for the year ended December 31, 2008 and except for the standard described below, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, January 1, 2007, being the beginning of the earliest period for which the Group presents full comparative information in these financial statements.

With due regard to the Group’s accounting policies in previous periods and the requirements of IFRS 1, management has elected to apply the optional exemption to not apply IFRS 3 “Business Combinations” retrospectively to past business combinations that occurred prior to January 1, 2005. In addition, the Group has elected to apply IFRS 2 “Share-based Payment” to equity instruments that were granted after November 7, 2002 that vested on or after January 1, 2005. As a result, the conversion from HKFRSs to IFRSs did not result in any impact on the Group’s accounts. As such, the Group makes an explicit and unreserved statement of compliance with IFRSs in the first IFRS financial statements which included amounts arising from business combinations in prior years in the comparatives. Accordingly, these financial statements continue to include a statement of compliance with HKFRSs as well as including for the first time a statement of compliance with IFRSs, without adjustment to the Group’s financial position, the Group’s financial performance or cash flows either at the date of transition to IFRSs or at the end of latest period presented in accordance with HKFRSs.

The comparative amounts of the consolidated financial statements were restated in accordance with HKFRSs. For details, please refer to Note 2.2. Under IFRSs, there is no restatement as the same accounting policies are applied to the opening balance sheet and throughout all periods presented.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of property, plant and equipment (other than buildings and telecommunications equipment of the GSM business), and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss. The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises (“CAS”) issued by the Ministry of Finance, which became effective from January 1, 2007 with certain transitional provisions. There are certain differences between the Group’s IFRS/HKFRS financial statements and PRC statutory financial statements. The principal adjustments made to the PRC statutory financial statements to conform to IFRS/HKFRS include the following:

- reversal of the revaluation surplus or deficit and related depreciation and amortization charges arising from the revaluation of assets (mainly property, plant and equipment) performed by independent valuers for the purpose of reporting to relevant PRC government authorities prior to January 1, 2007;
- recognition of the revaluation surplus or deficit and related depreciation charges for the purpose of reporting the property, plant and equipment (other than buildings and telecommunications equipment of the GSM business) at revalued amounts under IFRS/HKFRS;
- recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;
- capitalization of the direct costs associated with the acquisition of subsidiaries prior to 2005;
- additional capitalization of borrowing costs prior to the adoption of CAS on January 1, 2007;
- capitalization and amortization of upfront non-refundable revenue and the related direct incremental costs for activating cellular subscribers prior to the adoption of CAS on January 1, 2007; and
- adjustments on deferred taxation in relation to IFRS/HKFRS adjustments.

Discontinued Operations

On June 2, 2008, the Company, CUCL and China Telecom entered into the Framework Agreement to dispose of the assets and liabilities in relation to the CDMA business and the disposal was completed on October 1, 2008. In accordance with IFRS/HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” issued by the IASB/HKICPA (“IFRS/HKFRS 5”), the results and cash flows of the operations of the CDMA business segment of the Group have been presented as discontinued operations in the consolidated statement of income and statement of cash flows of the Group for the year ended December 31, 2008, and the 2007 comparative figures for the consolidated statement of income and statement of cash flows were also reclassified as discontinued operations accordingly. The difference between the consideration received and receivable and the book value of net assets disposed of is recorded as “Gain on the disposal of discontinued operations” in the consolidated statement of income for the year ended December 31, 2008.

On January 15, 2007, CNC China entered into an assets transfer agreement with Netcom Group to dispose of the assets and liabilities in relation to the telecommunications operations of its Guangdong and Shanghai Branches in the PRC and the disposal was completed on February 28, 2007. In accordance with IFRS/HKFRS 5, the results and cash flows of the operations of the Guangdong and Shanghai Branches have been presented as discontinued operations in the consolidated statement of income and statement of cash flows of the Group for the year ended December 31, 2007.

For details, please refer to Note 33.

Business Combination of Entities and Business under Common Control

The merger between the Company and China Netcom is considered to be a business combination of entities under common control as their respective ultimate holding companies, namely Unicom Group and Netcom Group, are both under the common control of SASAC. Further, the 2008 Business Combination was carried out by reference to the Announcement on Deepening the Reform of the Structure of the Telecommunications Sector dated May 24, 2008 jointly issued by MIIT, the National Development and Reform Commission (“NDRC”) and the Ministry of Finance of the PRC. As set out in Note 1, Unicom Group and Netcom Group had merged on January 6, 2009 following the merger between the Company and China Netcom.

The acquisition of Beijing Telecom P&D Institute in 2007 was considered to be a business combination of entities under common control of Netcom Group as Beijing Telecom P&D Institute was a wholly-owned subsidiary of Beijing Communications Corporation, which is a wholly-owned subsidiary of Netcom Group.

The acquisition of Guizhou Business in 2007 was also considered to be a business combination of entity and business under common control as the Group and Guizhou Business were both under the common control of Unicom Group.

Upon the adoption of HKFRSs in 2005 by the Group, the above transactions have been accounted for using merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (“AG 5”) issued by the HKICPA. With regard to IFRSs, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method which is consistent with HKFRSs. The acquired assets and liabilities are stated at predecessor values, and are included in the consolidated financial statements from the beginning of the earliest period presented as if the entities and business acquired had always been part of the Group.

Change of Accounting Policies and Estimates

Since the 2008 Business Combination is accounted for as a business combination of entities under common control, the Group has restated all its HKFRS 2007 comparative amounts as if the merger had been completed on the earliest date of the periods being presented, i.e., January 1, 2007. In addition, to align the accounting policies of the Group and China Netcom, the Group has adopted the following changes solely to its HKFRS accounting policies:

(a) Measurement of property, plant and equipment

Pursuant to a resolution passed by the Board of Directors on August 13, 2008, the Group changed the following accounting policies for the property, plant and equipment held by the Group prior to the merger with China Netcom:

- 1) Buildings are stated at historical costs less accumulated depreciation and accumulated impairment losses instead of at revalued amounts;
- 2) Other property, plant and equipment (other than the telecommunications equipment of GSM business) are stated at revalued amounts instead of historical costs less accumulated depreciation and accumulated impairment losses.

The change in accounting policy in relation to buildings has been applied on a retrospective basis. The change in accounting policy for other property, plant and equipment (other than the telecommunications equipment of GSM business) to the revaluation basis has been treated as a revaluation occurring at the beginning of the earliest period presented in these financial statements. Accordingly, a revaluation of property, plant and equipment (other than the telecommunications equipment of GSM business) as of January 1, 2007 was performed by an independent property valuation firm, using the replacement cost or open market value approach, as appropriate.

The impact of the change of accounting policies for property, plant and equipment is summarized as follows:

	<u>As of January 1,</u> 2007	<u>As of December 31,</u>		<u>Year ended December 31,</u>	
		2007	2008	2007	2008
Continuing operations:					
Change in measurement of buildings					
Decrease in property, plant and equipment, net	(349)	(335)	(324)	—	—
Decrease in deferred tax liabilities	104	76	73	—	—
Decrease in revaluation reserve	273	301	304	—	—
Increase in retained profits	(28)	(42)	(53)	—	—
Decrease in depreciation and amortization charge	—	—	—	(14)	(11)
Increase in deferred tax expense	—	—	—	—	3
Change in measurement of other property, plant and equipment (other than the telecommunications equipment of GSM business)					
Decrease in property, plant and equipment, net	(814)	(659)	(504)	—	—
Increase in deferred tax assets	269	164	125	—	—
Increase in revaluation reserve, net	(265)	(215)	(135)	—	—
Decrease in retained profits	810	710	514	—	—
Decrease in depreciation and amortization charge	—	—	—	(155)	(155)
Increase in deferred tax expense	—	—	—	128	39

The above changes in accounting policies did not have significant impact on the earnings per share for the years ended December 31, 2007 and 2008.

(b) Subscriber points reward program

The Group has implemented a subscriber points reward program, which is a bonus points based scheme that rewards subscribers according to their service consumption, loyalty and payment history. In prior years, the Group recognized the estimated costs under the subscriber points reward program as “other operating expenses”. In 2008, the Group early adopted IFRIC/HK(IFRIC)-Int 13. Upon the early adoption of IFRIC/HK(IFRIC)-Int 13, a portion of the consideration received or receivable from customers is allocated to the bonus points by reference to their fair value. The fair value of the subscriber points award is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired. The deferred revenue is recognized 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 adoption of IFRIC/HK(IFRIC)-Int 13 represents a change solely in HKFRS accounting policy which has been applied retrospectively so the comparatives presented have been restated to conform with the changed policy.

The impact of changes of accounting policy is summarized as follows:

	<u>As of December 31, 2007</u>	<u>As of December 31, 2008</u>
Decrease in payables and accrued liabilities	(634)	(118)
Increase in deferred revenue	634	118
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2007</u>	<u>December 31, 2008</u>
Continuing operations:		
(Decrease)/increase in revenue	(55)	264
Decrease/(increase) in expense	55	(264)
Discontinued operations:		
(Decrease)/increase in revenue	(23)	118
Decrease/(increase) in expense	23	(118)

The following tables summarize the changes to the 2007 comparative financial information in connection with the disposal of the CDMA Business, 2008 Business Combination and changes of accounting policies:

For the year ended/as of December 31, 2007	As previously reported	CDMA Business (discontinued operations)	2008 Business Combination	Changes of accounting policies	Eliminations	As restated
Results of continuing operations:						
Revenue	99,539	(31,197)	84,005	(78)	(1,582)	150,687
Net income	9,301	(656)	11,472	41	—	20,158
Financial position:						
Non-current assets	132,588	—	170,078	(754)	—	301,912
Current assets	16,834	—	15,508	—	(167)	32,175
Total assets	149,422	—	185,586	(754)	(167)	334,087
Non-current liabilities	2,974	—	28,128	423	—	31,525
Current liabilities	49,231	—	75,405	(423)	(167)	124,046
Total liabilities	52,205	—	103,533	—	(167)	155,571
Net assets	97,217	—	82,053	(754)	—	178,516

Going Concern Assumption

As of December 31, 2008, the current liabilities of the Group exceeded the current assets by approximately RMB89.1 billion (December 31, 2007: approximately RMB91.9 billion). Given the current global economic conditions and the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Unutilized banking facilities of approximately RMB92.0 billion; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group will continue to optimize its fund raising strategy from short, medium and long-term perspectives and to seize the opportunity in the current capital market to take advantage of the low interest rates by issuing medium to long-term debts with low financing cost.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended December 31, 2008 have been prepared under the going concern basis.

Critical Accounting Estimates and Judgment

The preparation of the consolidated financial statements in conformity with IFRSs/HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

New Accounting Standards, Amendments and Interpretations Pronouncements

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, 2008 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.

- (a) The following interpretation is early adopted by the Group
- IFRIC/HK(IFRIC)-Int 13, “Customer loyalty programmes” (effective from July 1, 2008). IFRIC/HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. Comparatives for 2007 have been restated upon adoption of this new interpretation. For the financial impact of the early adoption of IFRIC/HK(IFRIC)-Int 13 on the Group’s financial statements, please refer to point (b) “Subscriber points reward program” under the section headed “Change of Accounting Policies and Estimates” of this Note.
- (b) The following new amendment and interpretation are effective in 2008 and are relevant and are applicable to the Group’s operations
- IFRIC/HK(IFRIC)-Int 11, “Group and treasury share transactions” provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. In previous years, the Company granted certain share options to its subsidiaries’ employees and recognized the share-based compensation cost in accordance with the transitional provision of IFRS/HKFRS 2. Upon the adoption of IFRIC/HK(IFRIC)-Int 11, equity-settled share-based compensation plan in which the Company grants share options to subsidiaries’ employees are accounted for as an increase in the value of investments in the subsidiaries in the Company’s balance sheet which is eliminated on consolidation. Accordingly, the share-based compensation cost previously recognized by the Company in its unconsolidated financial statements of approximately RMB151 million for the year ended December 31, 2007 was allocated to the subsidiaries and the related business segments. The segment information for the year ended December 31, 2007 has been restated to reflect the effect of the adoption of IFRIC/HK(IFRIC)-Int 11.
 - IAS/HKAS 39, “Financial instruments: Recognition and measurement”, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS/HKFRS 7, “Financial instruments: Disclosures”, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. This amendment does not have any impact on the Group’s financial statements, as the Group has not reclassified any financial assets.

- (c) The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operation
- IFRIC/HK(IFRIC)-Int 12, "Service concession arrangements".
 - IFRIC/HK(IFRIC)-Int 14, "The limit on a defined benefit asset, minimum funding requirements and their interaction".
- (d) Standards, amendments to standards and interpretations to existing standards have been issued but not yet effective in 2008 and have not been early adopted by the Group
- IFRS/HKFRS 2 (Amendment), "Share-based payment" (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
 - IFRS/HKFRS 8, "Operating segments" (effective from January 1, 2009). The amended standard replaces IAS/HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.
 - IFRS/HKFRS 3 (Revised) "Business combination" (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of income. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IAS/HKAS 1 (Revised), “Presentation of financial statements” (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated statement of income and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as of the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. It is likely that both the consolidated statement of income and statement of comprehensive income will be presented as performance statements.
- IAS/HKAS 23 (Revised), “Borrowing costs” (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.
- IAS/HKAS 27 (Revised), “Consolidated and separate financial statements” (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in income or loss.

- IASB’s annual improvement project published in May 2008/HKICPA’s improvements to HKFRS published in October 2008
 - IAS/HKAS 1 (Amendment), “Presentation of financial statements” (effective from January 1, 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS/HKAS 39, “Financial instruments: Recognition and measurement” are examples of current assets and liabilities respectively.
 - IAS/HKAS 19 (Amendment), “Employee benefits” (effective from January 1, 2009).
 - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
 - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - IAS/HKAS 37, “Provisions, contingent liabilities and contingent assets” requires contingent liabilities to be disclosed, not recognized. IAS/HKAS 19 has been amended to be consistent.
 - IAS/HKAS 23 (Amendment), “Borrowing costs” (effective from January 1, 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS/HKAS 39 “Financial instruments: Recognition and measurement”. This eliminates the inconsistency of terms between IAS/HKAS 39 and IAS/HKAS 23.

- IAS/HKAS 27 (Amendment), “Consolidated and separate financial statements” (effective from January 1, 2009). Where an investment in a subsidiary that is accounted for under IAS/HKAS 39, “Financial instruments: recognition and measurement”, is classified as held for sale under IFRS/HKFRS 5, “Non-current assets held for sale and discontinued operations”, IAS/HKAS 39 would continue to be applied.
- IAS/HKAS 36 (Amendment), “Impairment of assets” (effective from January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.
- IAS/HKAS 40 (Amendment), “Investment property” (and consequential amendments to IAS/HKAS 16) (effective from January 1, 2009). Property that is under construction or development for future use as investment property is within the scope of IAS/HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.
- IFRS/HKFRS 5 (Amendment), “Non-current assets held for sale and discontinued operations” (and consequential amendment to IFRS/HKFRS 1, “First-time adoption”) (effective from July 1, 2009). The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS/HKFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS/HKFRSs.
- There are a number of minor amendments to IFRS/HKFRS 7, “Financial instruments: Disclosures”, IAS/HKAS 8, “Accounting policies, changes in accounting estimates and errors”, IAS/HKAS 10, “Events after the balance sheet date”, IAS/HKAS 18, “Revenue” and IAS/HKAS 34, “Interim financial reporting” which are not addressed above.

The Group is currently evaluating the impact of adopting the above standards/interpretations on the Group’s consolidated financial statements.

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to December 31.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Upon the disposal of subsidiaries, the difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain/loss on disposal in the consolidated statement of income in the year of disposal.

The Group has acquired the equity interests of certain subsidiaries prior to 2005 (refer to Note 8 for details). Prior to the adoption of HKFRSs in 2005, the Group accounted for the acquisition of subsidiaries under common control in accordance with the original HK SSAP 27 “Accounting for Group Reconstructions” (“HK SSAP 27”) under the previous accounting principles generally accepted in Hong Kong and the requirement of the Hong Kong Companies Ordinance. Since the criteria for applying merger accounting under HK SSAP 27 was not satisfied, the purchase method of accounting was used to account for the acquisitions of those subsidiaries (including common control transactions) by the Group prior to 2005.

Under the purchase method of accounting, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group’s share of the identifiable net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Upon the adoption of HKFRSs in 2005, merger accounting is used by the Group to account for the business combination of entities and businesses under common control in accordance with AG 5 issued by the HKICPA. The results of operations and financial position of such entities or businesses are included in the consolidated financial statements as if the businesses were always part of the Group from the beginning of the earliest period presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Upon the adoption of IFRSs, the Group has elected not to apply IFRS 3 “Business Combination” retrospectively to past business combination that occurred prior to January 1, 2005. In addition, the Group 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.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

(b) **Minority interests**

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheets and statements of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of income as an allocation of the total income or loss for the year between minority shareholders and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports income, the Group's interest is allocated all such income until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains or losses for the Group are recorded in the consolidated financial statements. Purchases from minority interests result in goodwill, being the difference of any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired.

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. For details of the Group's business segments, please refer to Note 5. The Group has not presented geographical segments as the Group operates primarily in one geographical segment. This is also consistent with the Group's internal financial reporting.

Unallocated costs primarily represent corporate expenses, realized loss on changes in fair value of derivative component of the convertible bonds and income tax expenses, whilst unallocated income represents interest income and other gains (including the tax refund on reinvestment in subsidiaries) that cannot be allocated to different operating segments. Segment assets consist primarily of property, plant and equipment, other assets, prepayments, inventories and consumables, receivables and operating cash. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity into other reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the statement of income as part of the gain or loss on disposal.

For the convenience of the reader, the translation of RMB into United States dollars ("US\$") has been made at the rate of RMB 6.8225 to US\$1.00, the noon buying rate in New York city for cable transfer in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008.

2.6 Property, Plant and Equipment

(i) Construction-in-progress

Construction-in-progress (“CIP”) represents buildings, plant and equipment under construction and pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use. When the asset being constructed becomes available for use, the CIP is transferred to the appropriate category of property, plant and equipment.

(ii) Buildings

As discussed in Note 2.2, on January 1, 2007, the Group changed its accounting policy such that buildings held by the Group are stated at cost, instead of revalued amounts, less accumulated depreciation and accumulated impairment losses, and are depreciated over their expected useful lives, which is consistent with the accounting policy of China Netcom prior to the merger as discussed in Note 1.

(iii) Other property, plant and equipment

Other property, plant and equipment comprise telecommunications equipment, leasehold improvements, office furniture, fixtures, motor vehicles and others. The cost of an asset, except for those acquired in exchange for a non-monetary asset or assets, comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

If an item of property, plant and equipment is acquired in exchange for another item of property, plant and equipment, the cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transactions lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable at the time the costs are incurred that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

As discussed in Note 2.2, on January 1, 2007, the Group changed its accounting policy such that all other property, plant and equipment (other than the telecommunications equipment of the GSM business) held by the Group are stated at revalued amounts, instead of historical costs, less accumulated depreciation and accumulated impairment losses, which is consistent with the accounting policy of China Netcom prior to the merger as discussed in Note 1.

When an item of fixed asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately together with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against any revaluation surplus on earlier valuations in respect of the same item and thereafter are debited to statement of income. Any subsequent increases are credited to the statement of income up to the amount previously debited. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the statement of income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained profits.

Revaluations on fixed assets will be performed with sufficient regularity by independent valuers and in each of the intervening years, valuations are reviewed by management of the Group. The revalued amount is the fair value at the date of revaluation.

(iv) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts less their residual values over their estimated useful lives, as follows:

	<u>Depreciable life</u>	<u>Residual rate</u>
Buildings	3 - 50 years	3-5%
Telecommunications equipment of GSM business	5 - 15 years	3-5%
Telecommunications equipment of Fixed-line business	5 - 15 years	3-5%
Office furniture, fixtures, motor vehicles and others	5 - 18 years	3-5%

Leasehold improvements are depreciated over the shorter of their estimated useful lives and the lease periods.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

(v) Gain or loss on disposal of property, plant or equipment

Gains or losses on disposal of a property, plant or equipment are determined by comparing the net sales proceeds with the carrying amounts, and are recognized in the statement of income. When revalued assets are sold, the residual amounts included in the revaluation reserve are transferred to retained profits.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Lease prepayments

Lease prepayments represent payments for land use rights. Lease prepayments for land use rights are stated at cost initially and expensed on a straight line basis over the lease period.

2.9 Other Assets

Other assets mainly represent (i) capitalized direct incremental costs for activating GSM and CDMA subscribers; (ii) installation costs of fixed-line services; (iii) customer acquisition costs; (iv) computer software; and (v) prepaid rental for premises and leased lines.

- (i) Capitalized direct incremental costs for activating GSM and CDMA subscribers, including costs of SIM/UIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activation of cellular services, are amortized over the expected customer service periods. The expected customer service periods are estimated based on the expected stabilized churn rates of subscribers.
- (ii) The direct incremental costs associated with the installation in relation to Fixed-line business are deferred and expensed to the statement of income over the expected customer relationship period of 10 years except when the direct incremental costs exceed the corresponding upfront installation fees. In such cases, the excess of the direct incremental costs over the installation fees are recorded immediately as expenses in the statement of income.
- (iii) Customer acquisition costs
 - (a) Customer acquisition costs under contractual CDMA subscriber packages represent the cost of CDMA handsets given to contractual subscribers under special promotional packages. Such customer acquisition costs, to the extent recoverable, are amortized over the contractual period (not exceeding 2 years) during which the minimum contract revenue is expected to flow to the Group. Customer acquisition costs of contractual CDMA subscribers are included in "prepayment and other current assets" when the customer contract is within 1 year of expiry, whereas they are recorded as "other assets" when the unexpired contract period is over 1 year.

- (b) When certain bifurcation conditions as mentioned in Note 2.21 (a) of Personal Handy-phone System (“PHS”) bundled service contracts are met, revenue attributable to handsets given to customers under bundled service contracts is recognized separately in the statement of income of the period the contracts are entered into. The costs of these handsets are expensed immediately to the statement of income in the same period. When any one of the bifurcation conditions is not met, the costs of handsets given to customers under bundled service contracts are deferred as subscriber acquisition costs, to the extent recoverable, as they meet the definition and criteria for an asset and expensed to the statement of income on a systematic basis over the customer service contract period.
- (iv) Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives on a straight-line basis.
- (v) Long-term prepaid rental for premises and leased lines are amortized using a straight-line method over the lease period.

2.10 Impairment of Non-Financial Assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested for impairment at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (i) an asset’s fair value less costs to sell and (ii) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Inventories and Consumables

Inventories, which primarily comprise handsets, SIM cards, UIM cards and accessories, are stated at the lower of cost and net realizable value. Cost is based on the first-in-first-out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Consumables consist of materials and supplies used in maintaining the Group’s telecommunication network and are charged to the statement of income when brought into use. Consumables are stated at cost less any provision for obsolescence.

2.12 Accounts Receivable and Other Receivables

Accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows which is discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of a provision account, and the amount of the loss is recognized in the statement of income. When a receivable is proven to be uncollectible with sufficient evidence, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited in the statement of income.

2.13 Short-term Bank Deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2.15 Convertible Bonds

As the functional currency of the Group is RMB, the conversion of the convertible bonds denominated in Hong Kong Dollars would not result in settlement by the exchange of a fixed amount of cash in RMB, the functional currency of the Group, for a fixed number of the Company's shares. In accordance with the requirements of IAS/HKAS 39, "Financial Instruments — Recognition and Measurement", the convertible bond contract must be separated into two component elements: a derivative component consisting of the conversion option and a liability component consisting of the straight debt element of the bonds.

On the issue of the convertible bonds, the fair value of the embedded conversion option was calculated using the Binomial model. The derivative component, the embedded conversion option, was carried at fair value on the balance sheet with any changes in fair value being charged or credited to the statement of income in the period when the change occurred. The remainder of the proceeds was allocated to the debt element of the bonds, net of transaction costs, and was recorded as the liability component. The liability component was subsequently carried at amortized cost until extinguished on conversion or redemption. Interest expense was calculated using the effective interest method by applying the effective interest rate to the liability component through the maturity date.

If the convertible bonds were converted, the carrying amounts of the derivative and liability components were transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds were redeemed, any difference between the amount paid and the carrying amounts of both components was recognized in the statement of income.

2.16 Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

(a) Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including connection fees, installation fees and receipts from the activation of SIM/UIM cards relating to the Cellular Business, which are deferred and recognized over the expected customer service period.

(b) 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 revenues upon the rendering of services.

(c) Subscriber points reward program

The fair value of providing telecommunications services and the subscriber points reward are allocated based on their relative fair values. A portion of revenue equal to the fair value of 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 deferred revenue is recognized 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.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Employee Benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a reduction in the future payments is available.

(b) Early retirement benefits

Early retirement benefits are recognized as expenses when the Group reaches agreement with the relevant employees for early retirement.

(c) Housing benefits

One-off cash housing subsidies paid to the PRC employees are charged to the statement of income in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated.

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

(d) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted excluding the impact of any non-market vesting conditions (for example, revenue and profit targets). However, non-market vesting conditions are considered in determining the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest. The Group recognizes the impact of the revision of original estimates, if any, in the statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the share options are exercised. The corresponding employee share-based compensation reserve is transferred to share premium.

In connection with the 2008 Business Combination (Note 1), the exchange of China Netcom's options to the Company's options was accounted for as a modification in accordance with IFRS/HKFRS 2 "Share-based Payment" issued by the IASB/HKICPA ("IFRS/HKFRS 2"). The incremental fair value of the exchanged options measured before and after the modification is to be recognized as follows:

- For vested options, the incremental share-based compensation costs are recognized in the statement of income immediately;
- For non-vested options, the incremental share-based compensation costs are recognized in the statement of income over the remaining vesting period.

2.19 Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the pre-tax amount of expenditures expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.20 Discontinued Operations

A discontinued operation is a component of the Group that may be a major line of business or geographical area of operations that has been disposed of or is held for sale. The results and cash flows of that component are separately reported as “discontinued operations” in the statement of income and statement of cash flows, respectively. The difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain/loss on disposal in the consolidated statement of income in the year of disposal. The comparative statement of income and statement of cash flows are also reclassified as “discontinued operations”. The assets and liabilities of such component classified as “discontinued operations” or “held for sale” is presented separately in assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued operations or assets/liabilities held for sale, and are de-recognized upon the completion of the disposal.

2.21 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 the Group's activities. Revenue is shown net of business tax, government surcharges, returns and discounts and after eliminating sales within the Group.

The Group recognizes 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 the Group's 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. The Group bases its estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services and goods

- Usage fees and monthly fees are recognized when the service are rendered;
- Revenues from the provision of broadband and other Internet-related services and managed data services are recognized when the services are provided to customers;
- Revenue from telephone cards, which represents service fees received from customers for telephone services, is recognized when the related service is rendered upon actual usage of the telephone cards by 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;
- Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalized ring, wireless data services, 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 CDMA promotional packages where CDMA handsets are provided to subscribers for their use during a specified contract period (Note 4.2(a)), since the commercial substance of the transaction is to develop new contractual subscribers by offering handsets, the two elements of CDMA cellular services and handsets are considered as a linked transaction. Service revenues from such promotional packages are recognized based upon the actual usage of cellular services at the tariff set out in the contracts.

- Certain PHS bundled service contracts comprise the provision of PHS services and handsets to customers, under which customers either prepay a certain amount of service fee or commit to spend a minimum monthly service fee for a designated period in order to receive a free handset. When all of the following criteria are met, PHS handsets and related services are separately recognized as revenues according to their relative fair values. When any one of the following criteria is not met, total revenues from PHS bundled service contracts are recognized on a systematic basis to match the shorter of the pattern of usage of the PHS services by customers and the minimum non-cancellable contractual period.
 - (i) PHS handsets and related services have value on a stand-alone basis;
 - (ii) Reliable estimate for fair value of PHS handsets and related services exists; and
 - (iii) In arrangements that include a general right of refund for the delivered item, performance of the undelivered item is considered probable and substantially in the Group's control.
 - 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, 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; (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.
- (b) Interest income
- Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis, using the effective interest method.
- (c) Dividend income
- Dividend income is recognized when the right to receive payment is established.

2.22 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including long-term prepayment for land use rights, are expensed in the statement of income on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. The interest element implicit in the lease payment is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.23 Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognized as expenses when incurred.

2.24 Taxation

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

2.25 Government Grants

Government grants are recognized at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to assets are included in non-current liabilities, which are credited to the statement of income on a straight-line basis over the expected lives of the related assets. Grants relating to costs are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate.

2.26 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.27 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the liability will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognized.

2.28 Earnings per Share and per American Depositary Share (“ADS”)

Basic earnings per share is computed by dividing the income attributable to equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is computed by dividing the income attributable to equity holders by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

Basic and diluted earnings per ADS are computed by multiplying earnings per share by 10, which is the number of shares represented by each ADS.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the Group's finance department at its headquarters, following the overall direction determined by the Board of Directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and HK dollars. Exchange risk exists with respect to the repayment of indebtedness to foreign lenders and payables to equipment suppliers and contractors.

The Group's finance department at its headquarters is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies to minimise the exposure to the Group. From time to time, the Group may enter into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the year, the Group and the Company had not entered into any forward exchange contracts or currency swap contracts.

As of December 31, 2007 and 2008, the Group had cash and cash equivalents and short-term bank deposits denominated in foreign currencies amounting to RMB1,673 million and RMB1,315 million, respectively (Note 36). As of December 31, 2007 and 2008, the Group had bank borrowings denominated in foreign currencies amounting to RMB4,898 million and RMB1,099 million, respectively (Note 19).

As of December 31, 2008, if the RMB had strengthened/weakened by 10% against the foreign currencies, primarily with respect to US dollars and HK dollars, while all other variables are held constant, the Group would have recognized additional exchange loss/gain of approximately RMB22 million (2007: exchange gain/loss approximately RMB323 million) for foreign currencies denominated cash and cash equivalents, short-term bank deposits and bank loans.

(ii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits, management does not expect the changes in market deposit interest rates will have significant impact on the financial statements as the deposits are all short-term in nature and the interest involved will not be significant.

The Group's interest rate risk arises from interest bearing borrowings including bank loans, corporate bonds and short-term commercial paper. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2007 and 2008, the Group's borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements designed to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2007 and 2008.

As of December 31, 2008, the Group had approximately RMB28,879 million (2007: approximately RMB35,296 million) of bank loans, corporate bonds and short-term commercial paper at fixed rates and approximately RMB1,114 million (2007: approximately RMB22,051 million) of bank loans at floating rates.

For the year ended December 31, 2008, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables are held constant, the interest expenses would have increased/decreased by approximately RMB125 million (2007: approximately RMB131 million).

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and short-term bank deposits with banks, as well as credit exposures to corporate customers, individual subscribers, related parties and other operators.

The table below shows the bank deposits and cash and cash equivalents balances held at the major banks by the Group as of December 31, 2007 and 2008:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Short-term bank deposits		
State-owned banks	619	238
Other banks	<u>116</u>	<u>—</u>
	<u>735</u>	<u>238</u>
Cash and cash equivalents		
State-owned banks	11,484	8,672
Other banks	<u>495</u>	<u>566</u>
	<u>11,979</u>	<u>9,238</u>

The Group expects that there is no significant credit risk associated with the bank deposits and cash and cash equivalents since the state-owned banks have support from the government and other banks are medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has no significant concentrations of credit risk with respect to corporate customers and individual subscribers. The extent of the Group's credit exposure is mainly represented by the fair value of accounts receivable for services. The Group has policies to limit the credit exposure on accounts receivable for services. The Group assesses the credit quality of and sets credit limits on all its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The normal credit period granted by the Group is on average between 30 days to 90 days from the date of billing. The utilization of credit limits and the settlement pattern of the customers are regularly monitored by the Group.

Credit risk relating to amounts due from related parties and other operators is not considered to be significant as these companies are reputable and their receivables are settled on a regular basis.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds through short-term bank loans, short-term commercial paper and the issuance of bonds. Due to the dynamic nature of the underlying businesses, the Group's finance department at its headquarters maintains flexibility in funding through having adequate amount of cash and cash equivalents and utilizing different sources of financing when necessary.

The following tables show the undiscounted balances of the financial liabilities (including interest expense) categorized by time period from the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At December 31, 2007 (As restated)				
Long-term bank loans	8,665	10,353	3,823	2,840
Corporate bonds	90	90	270	2,450
Other obligations	525	458	1,243	1,051
Payables and accrued liabilities	46,486	—	—	—
Amounts due to related parties	6,015	2,214	4,337	—
Amounts due to domestic carriers	510	—	—	—
Short-term commercial paper	20,629	—	—	—
Short-term bank loans	<u>12,134</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>95,054</u>	<u>13,115</u>	<u>9,673</u>	<u>6,341</u>
At December 31, 2008				
Long-term bank loans	1,299	108	315	635
Corporate bonds	355	355	6,064	2,360
Other obligations	510	394	1,034	866
Payables and accrued liabilities	63,605	—	—	—
Amounts due to related parties	2,727	—	—	—
Amounts due to domestic carriers	538	—	—	—
Payables in relation to the disposal of the CDMA Business	4,232	—	—	—
Short-term commercial paper	10,447	—	—	—
Short-term bank loans	<u>11,013</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>94,726</u>	<u>857</u>	<u>7,413</u>	<u>3,861</u>

Regarding the Group's going concern basis of assumption for the preparation of its financial statements, please refer the details to Note 2.2.

3.2 Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.
- To support the Group's stability and growth.
- To provide capital for the purpose of strengthening the Group's risk management capability.

In order to maintain or adjust the capital structure, the Group reviews and manages its capital structure actively and regularly to ensure optimal capital structure and shareholder returns, taking into account the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital on the basis of the debt-to-capitalization ratio. This ratio is calculated as interest bearing debts plus minority interest over interest bearing debts plus total equity. Interest bearing debts represent short-term commercial paper, short-term bank loans, long-term bank loans, amounts due to related parties and corporate bonds, as shown in the consolidated balance sheet. Total equity represents capital and reserves attributable to the Company's equity holders plus minority interest as shown in the consolidated balance sheet.

The Group's debt-to-capitalization ratios at December 31, 2007 and 2008 are as follows:

	2007 (As restated)	2008
Interest bearing debts:		
- Short-term commercial paper	20,000	10,000
- Short-term bank loans	11,850	10,780
- Current portion of long-term loans	7,411	1,216
- Long-term bank loans	16,086	997
- Corporate bonds	2,000	7,000
- Amounts due to related parties	8,129	—
	<u>65,476</u>	<u>29,993</u>
Minority interest	<u>4</u>	<u>—</u>
Interest bearing debts plus minority interest	<u>65,480</u>	<u>29,993</u>
Total equity:		
- Capital and reserves attributable to equity holders of the Company	178,512	206,710
- Minority interest	4	—
	<u>178,516</u>	<u>206,710</u>
Interest bearing debts plus total equity	<u>243,996</u>	<u>236,703</u>
Debt-to-capitalization ratio	<u>26.8%</u>	<u>12.7%</u>

The decrease in debt-to-capitalization ratio during 2008 resulted primarily from the repayment of short-term commercial paper and long-term bank loans by utilizing the proceeds from the sale of the CDMA Business by the Group and the issuance of new shares in connection with the merger with China Netcom.

3.3 Fair value estimation

The estimate of fair value of the Company's options is determined by using valuation techniques. The Group selects an appropriate valuation method and makes assumptions with reference to market conditions existing at each valuation date.

The fair value of financial instruments that are actively traded is based on the market price as of balance sheet date. The carrying value of trade receivables (net of impairment provision) and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation on property, plant and equipment

Depreciation on the Group's property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts up to residual values over the estimated useful lives of the assets. The Group reviews 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. The Group estimates 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.

(b) Revaluation of property, plant and equipment

Property, plant and equipment other than buildings and telecommunications equipment of the GSM business (Note 2.6 (iii)) is carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and impairment. Such equipment was revalued on a replacement cost or open market value approach, as appropriate, by an independent valuer. If the revalued amounts differ significantly from the carrying amounts of the equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the equipment. This will have an impact on the Group's future results, since any subsequent decreases in valuation are first set off against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the statement of income and any subsequent increases are credited as income to the statement of income up to the amount previously charged to the statement of income and thereafter are credited to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such equipment change as a result of the revaluation.

(c) Impairment of non-current assets

The Group tests whether non-current assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.10. 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-current assets and the Group's results would be significantly affected. Such impairment losses are recognized in the statement of income, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

For the year ended December 31, 2008, the Group recognized RMB11,837 million (2007: Nil) of impairment loss on property, plant and equipment in relation to the PHS services. 1% increase in the discount rate used would result in an increase in impairment loss of approximately RMB11 million. For details, please refer to Note 6.

(d) Provision for doubtful debts

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. The Group evaluates specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. The Group records a provision based on its best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as of each reporting date, the Group makes a provision based on observable data indicating that there is a measurable decrease in the estimated future cash flows from the remaining balances. The Group makes such estimates based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. For general subscribers, the Group makes a full provision for receivables aged over 3 months, which is consistent with its credit policy with respect to the relevant subscribers.

The Group's estimates described above are based on past experience, subscribers' creditworthiness and collection trends. If circumstances change (e.g. due to factors including developments in the Group's business and the external market environment), the Group may need to re-evaluate its policies on doubtful debts, and make additional provisions in the future.

(e) Income tax and deferred taxation

The Group estimates its 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 it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes 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, the Group has assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to impairment loss and revaluation deficit on property, plant and equipment, provision for doubtful debts, deferred revenue and accruals of expenses not yet deductible for tax purpose. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB5,326 million as of December 31, 2008 (2007: approximately RMB2,514 million). Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate current tax provision and deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxation may be necessary which would impact the Group's results or financial position.

(f) Equity-settled share options

On October 15, 2008, the Company granted share options under the Special Purpose Share Option Scheme. The fair value of this option which is not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at the grant date. The valuation model requires the input of subjective assumptions, including the volatility of share price, dividend yield and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. For details, please refer to Note 32.

4.2 Critical judgments in applying the Group's accounting policies

Recognition of upfront non-refundable revenue and direct incremental costs

(a) Mobile telecommunications services

The Group defers and amortizes upfront non-refundable revenue, including connection fees and activation fees of SIM cards or UIM cards from cellular subscribers over the expected customer service period. Accordingly, the related direct incremental costs of acquiring and activating GSM and CDMA subscribers, including costs of SIM or UIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activation of cellular services, are also capitalized and amortized over the same expected customer service period. The Group only capitalized 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, are expensed to the statement of income immediately. The weighted average customer service period of Cellular Business based on current estimation after considering the prevailing market environment is approximately 3 years (2007: approximately 3 years).

The expected customer service period for the Cellular Business is estimated based on the expected stabilized churn rates of subscribers after taking into consideration factors such as customer retention experience, the expected level of competition, the risk of technological or functional obsolescence of our services and the current regulatory environment. If the estimate of the expected stabilized churn rate changes for future periods as a result of unexpected changes in competition environment, telecommunications technology or regulatory environment, the amount and timing of recognition of these deferred direct incremental costs and deferred revenue would also be changed.

(b) Fixed-line telecommunications services

The Group defers the recognition of upfront customer connection and installation fees and amortizes them over the expected customer relationship period of 10 years. The related direct incremental installation costs are deferred and amortized over the same expected customer relationship period of 10 years, except when the direct incremental costs exceed the corresponding installation fees, the excess amounts are immediately written off as an expense to the statement of income.

The Group estimates the expected customer relationship 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 the Group's services, technological innovation, and the expected changes in the regulatory and social environment. If the Group's estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues may change for future periods.

5. SEGMENT INFORMATION

Upon the completion of the merger between the Company and China Netcom on October 15, 2008, the Group's business has become more diversified and management has reassessed the segment information presentation for the year ended December 31, 2008. The Group revised its basis of reporting to the chief operating decision maker by combining the data and Internet business and long distance business previously separately reported together with the Fixed-line business to better reflect its business segment results based on the underlying risk and rewards of the businesses. Accordingly, the comparative figures have been restated to conform with the current year's presentation.

The Group's continuing operations comprise two business segments based on the various types of telecommunications services mainly provided to customers in Mainland China. The major business segments operated by the Group are classified as follows:

Continuing operations:

- GSM business — the provision of GSM telephone and related services in all 31 provinces, municipalities and autonomous regions in Mainland China;
- Fixed-line business — the provision of fixed-line telecommunications and related services in Liaoning, Jilin, Heilongjiang, Shandong, Shanxi, Henan and Hebei provinces, Neimenggu autonomous region and Tianjin and Beijing municipalities and the provision of domestic and international data and Internet related services and domestic and international long distance and related services in all 31 provinces, municipalities and autonomous regions in Mainland China previously separately reported by the Group.

Discontinued operations:

- CDMA business — the provision of CDMA telephone and related services, through a leasing arrangement for CDMA network capacity from Unicom New Horizon;
- Fixed-line business — the provision of fixed-line telecommunications and related services in Guangdong and Shanghai Branches.

The Group's primary measure of segment results is based on segment income or loss before income tax. Unallocated costs primarily represent corporate expenses, realized loss on changes in fair value of derivative component of the convertible bonds and income tax expense whilst unallocated income represents interest income and other income (including the tax refund on reinvestment in subsidiaries), which cannot be identified to different operating segments.

5.1 Business Segments

2007
(As restated)

	Continuing operations				Discontinued operations (Up to effective date of disposal)				
	GSM business	Fixed-line business	Unallocated amounts	Elimination	Total continuing operations	CDMA business	Fixed-line business - Guangdong and Shanghai Branches	Total discontinued operations	Total
Service revenue	62,547	87,200	—	—	149,747	26,309	615	26,924	176,671
Sales of telecommunications products	12	928	—	—	940	4,888	—	4,888	5,828
Total revenue from external customers	62,559	88,128	—	—	150,687	31,197	615	31,812	182,499
Intersegment revenue	173	3,724	—	(3,897)	—	—	—	—	—
Total revenue	62,732	91,852	—	(3,897)	150,687	31,197	615	31,812	182,499
Interconnection charges	(10,022)	(5,032)	—	3,840	(11,214)	(2,164)	(151)	(2,315)	(13,529)
Depreciation and amortization	(19,044)	(28,325)	—	—	(47,369)	(632)	(141)	(773)	(48,142)
Networks, operations and support expenses	(6,256)	(9,820)	—	54	(16,022)	(10,203)	(91)	(10,294)	(26,316)
Employee benefit expenses	(4,499)	(12,996)	(45)	—	(17,540)	(1,823)	(57)	(1,880)	(19,420)
Other operating expenses	(14,132)	(18,619)	(28)	3	(32,776)	(15,227)	(154)	(15,381)	(48,157)
Financial income/(costs)	134	(3,297)	(724)	656	(3,231)	(15)	(26)	(41)	(3,272)
Interest income	107	136	698	(656)	285	15	—	15	300
Realized loss on changes in fair value of derivative component of the convertible bonds	—	—	(569)	—	(569)	—	—	—	(569)
Other income — net	132	2,077	2,781	—	4,990	7	2	9	4,999
Segment income/(loss) before income tax	9,152	15,976	2,113	—	27,241	1,155	(3)	1,152	28,393
Income tax expenses	—	—	—	—	(7,083)	—	—	(498)	(7,581)
Gain on the disposal of Guangdong and Shanghai Branches	—	—	—	—	—	—	—	626	626
Net income	—	—	—	—	20,158	—	—	1,280	21,438
Attributable to:	—	—	—	—	20,158	—	—	1,279	21,437
Equity holders of the Company	—	—	—	—	—	—	—	1	1
Minority interest	—	—	—	—	—	—	—	—	—
	—	—	—	—	20,158	—	—	1,280	21,438
Other information:	—	—	—	—	—	—	—	—	—
(Provision)/reversal for doubtful debts	(1,258)	(942)	—	—	(2,200)	(395)	17	(378)	(2,578)
Capital expenditures for segment assets (a)	16,332	20,040	9,587	—	45,959	—	443	443	46,402

	Continuing operations				Total continuing operations	Discontinued operations (Up to effective date of disposal)	Total
	GSM business	Fixed-line business	Unallocated amounts	Elimination		CDMA business	
Service revenue	64,704	82,548	—	—	147,252	19,077	166,329
Sales of telecommunications products	550	1,104	—	—	1,654	3,253	4,907
Total revenue from external customers	65,254	83,652	—	—	148,906	22,330	171,236
Intersegment revenue	157	3,314	—	(3,471)	—	—	—
Total revenue	65,411	86,966	—	(3,471)	148,906	22,330	171,236
Interconnection charges	(10,753)	(4,603)	—	3,345	(12,011)	(1,692)	(13,703)
Depreciation and amortization	(18,786)	(28,892)	—	—	(47,678)	(411)	(48,089)
Networks, operations and support expenses	(6,658)	(10,038)	—	119	(16,577)	(7,780)	(24,357)
Employee benefit expenses	(5,137)	(13,718)	(47)	—	(18,902)	(1,600)	(20,502)
Other operating expenses	(15,976)	(17,272)	(341)	7	(33,582)	(8,966)	(42,548)
Financial income/(costs)	175	(2,632)	(668)	714	(2,411)	(6)	(2,417)
Interest income	309	105	539	(714)	239	10	249
Impairment loss on property, plant and equipment	—	(11,837)	—	—	(11,837)	—	(11,837)
Other income — net	110	1,884	—	—	1,994	22	2,016
Segment income/(loss) before income tax	8,695	(37)	(517)	—	8,141	1,907	10,048
Income tax expenses	—	—	—	—	(1,801)	(469)	(2,270)
Gain on the disposal of the CDMA Business	—	—	—	—	—	26,135	26,135
Net income	—	—	—	—	6,340	27,573	33,913
Attributable to:							
Equity holders of the Company					6,340	27,572	33,912
Minority interest					—	1	1
					6,340	27,573	33,913
Other information:							
Provision for doubtful debts	(1,371)	(1,529)	—	—	(2,900)	(383)	(3,283)
Capital expenditures for segment assets (a)	33,852	26,957	9,676	—	70,485	—	70,485

	December 31, 2007 (As restated)					Total
	GSM business	CDMA business	Fixed-line business	Unallocated amounts	Elimination	
Total segment assets	<u>112,657</u>	<u>9,885</u>	<u>210,649</u>	<u>17,234</u>	<u>(16,338)</u>	<u>334,087</u>
Total segment liabilities	<u>49,118</u>	<u>9,101</u>	<u>109,891</u>	<u>3,799</u>	<u>(16,338)</u>	<u>155,571</u>
	December 31, 2008					Total
	GSM business	CDMA business	Fixed-line business	Unallocated amounts	Elimination	
Total segment assets	<u>168,782</u>	<u>—</u>	<u>202,645</u>	<u>16,329</u>	<u>(42,832)</u>	<u>344,924</u>
Total segment liabilities	<u>82,027</u>	<u>—</u>	<u>98,699</u>	<u>320</u>	<u>(42,832)</u>	<u>138,214</u>

- (a) Capital expenditures classified under “Unallocated amounts” represent capital expenditures on common facilities, which benefit all business segments.

5.2 Geographical Segments

The customers of the Group’s services are mainly in Mainland China. There is no other geographical segment with segment revenue from external customers equal to or greater than 10% of total revenue of the Group.

In addition, although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group’s non-current assets (including property, plant and equipment and other assets) are situated in Mainland China, as the Group’s principal activities are conducted in Mainland China. For 2007 and 2008, substantially all capital expenditures incurred by the Group were to acquire assets located in Mainland China and less than 10% of the Group’s assets and operations are located outside Mainland China. Accordingly, no geographical segment information is presented.

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended December 31, 2007 and 2008 are as follows:

	2007 (As restated)						Total
	Buildings	Tele-communications equipment of GSM business	Tele-communications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress	
Cost or valuation:							
Beginning of year (As previously reported)	14,804	134,810	34,002	9,675	1,388	13,670	208,349
2008 Business Combination under common control (Note 1)	27,545	—	289,263	18,899	166	6,335	342,208
Change of accounting policy on measurement of property, plant and equipment (Note 2.2)	(377)	—	(3,985)	—	—	—	(4,362)
Beginning of year (As restated)	41,972	134,810	319,280	28,574	1,554	20,005	546,195
Additions	221	154	849	1,089	8	42,880	45,201
Transfer from CIP	2,422	18,793	17,356	3,777	437	(42,785)	—
Disposal of discontinued operations	(413)	—	(7,635)	(344)	(137)	(1,134)	(9,663)
Disposals	(108)	(2,097)	(2,139)	(678)	(205)	—	(5,227)
End of year (As restated)	<u>44,094</u>	<u>151,660</u>	<u>327,711</u>	<u>32,418</u>	<u>1,657</u>	<u>18,966</u>	<u>576,506</u>
Representing:							
At cost	44,094	151,660	—	—	—	18,966	214,720
At valuation	—	—	327,711	32,418	1,657	—	361,786
	<u>44,094</u>	<u>151,660</u>	<u>327,711</u>	<u>32,418</u>	<u>1,657</u>	<u>18,966</u>	<u>576,506</u>
Accumulated depreciation and impairment:							
Beginning of year (As previously reported)	(3,568)	(71,725)	(14,413)	(5,032)	(802)	(14)	(95,554)
2008 Business Combination under common control (Note 1)	(7,081)	—	(151,127)	(9,446)	(78)	—	(167,732)
Change of accounting policy on measurement of property, plant and equipment (Note 2.2)	28	—	3,171	—	—	—	3,199
Beginning of year (As restated)	(10,621)	(71,725)	(162,369)	(14,478)	(880)	(14)	(260,087)
Charge for the year	(1,326)	(15,684)	(26,001)	(3,695)	(292)	(10)	(47,008)
Impairment loss for the year	—	—	—	—	—	—	—
Disposal of discontinued operations	60	—	1,867	137	74	—	2,138
Disposals	78	1,963	1,702	613	205	—	4,561
End of year (As restated)	<u>(11,809)</u>	<u>(85,446)</u>	<u>(184,801)</u>	<u>(17,423)</u>	<u>(893)</u>	<u>(24)</u>	<u>(300,396)</u>
Net book value:							
End of year (As restated)	<u>32,285</u>	<u>66,214</u>	<u>142,910</u>	<u>14,995</u>	<u>764</u>	<u>18,942</u>	<u>276,110</u>
Beginning of year (As restated)	<u>31,351</u>	<u>63,085</u>	<u>156,911</u>	<u>14,096</u>	<u>674</u>	<u>19,991</u>	<u>286,108</u>

	<u>Buildings</u>	<u>Tele-communications equipment of GSM business</u>	<u>Tele-communications equipment of Fixed-line business</u>	<u>Office furniture, fixtures, motor vehicles and others</u>	<u>Leasehold improvements</u>	<u>Construction-in-progress</u>	<u>Total</u>
Cost or valuation:							
Beginning of year (As previously reported)	16,361	151,660	35,481	10,984	1,612	14,966	231,064
2008 Business Combination under common control (Note 1)	28,110	—	296,215	21,434	45	4,000	349,804
Change of accounting policy on measurement of property, plant and equipment (Note 2.2)	(377)	—	(3,985)	—	—	—	(4,362)
Beginning of year (As restated)	44,094	151,660	327,711	32,418	1,657	18,966	576,506
Additions	200	194	1,272	1,067	7	67,745	70,485
Transfer from CIP	2,039	17,931	21,797	3,788	350	(45,905)	—
Disposal of discontinued operations	(1,077)	(3,469)	—	(284)	(6)	(23)	(4,859)
Disposals	(306)	(3,037)	(5,637)	(903)	(381)	—	(10,264)
End of year	<u>44,950</u>	<u>163,279</u>	<u>345,143</u>	<u>36,086</u>	<u>1,627</u>	<u>40,783</u>	<u>631,868</u>
Representing:							
At cost	44,950	163,279	—	—	—	40,783	249,012
At valuation	—	—	345,143	36,086	1,627	—	382,856
	<u>44,950</u>	<u>163,279</u>	<u>345,143</u>	<u>36,086</u>	<u>1,627</u>	<u>40,783</u>	<u>631,868</u>
Accumulated depreciation and impairment:							
Beginning of year (As previously reported)	(3,827)	(85,446)	(18,230)	(6,505)	(878)	(14)	(114,900)
2008 Business Combination under common control (Note 1)	(8,024)	—	(169,897)	(10,918)	(15)	(10)	(188,864)
Change of accounting policy on measurement of property, plant and equipment (Note 2.2)	42	—	3,326	—	—	—	3,368
Beginning of year (As restated)	(11,809)	(85,446)	(184,801)	(17,423)	(893)	(24)	(300,396)
Charge for the year	(1,612)	(15,110)	(25,589)	(4,202)	(269)	(9)	(46,791)
Impairment loss for the year	—	—	(11,825)	—	—	(12)	(11,837)
Disposal of discontinued operations	190	1,546	—	126	—	—	1,862
Disposals	212	3,068	4,733	831	349	13	9,206
End of year	<u>(13,019)</u>	<u>(95,942)</u>	<u>(217,482)</u>	<u>(20,668)</u>	<u>(813)</u>	<u>(32)</u>	<u>(347,956)</u>
Net book value:							
End of year	<u>31,931</u>	<u>67,337</u>	<u>127,661</u>	<u>15,418</u>	<u>814</u>	<u>40,751</u>	<u>283,912</u>
Beginning of year (As restated)	<u>32,285</u>	<u>66,214</u>	<u>142,910</u>	<u>14,995</u>	<u>764</u>	<u>18,942</u>	<u>276,110</u>

As of December 31, 2008, the carrying value of all the revalued property, plant and equipment aforementioned would have been approximately RMB152,989 million (2007: approximately RMB172,262 million) had they been stated at cost less accumulated depreciation and impairment. The directors of the Company consider the fair values of these revalued property, plant and equipment were not materially different from their carrying values as of December 31, 2008.

As of December 31, 2008, the net book value of assets held under finance leases was approximately RMB52 million (2007: approximately RMB408 million).

For the year ended December 31, 2008, interest expense of approximately RMB260 million (2007: approximately RMB439 million) was capitalized to construction-in-progress. The capitalized borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.51% to 6.80% for the year ended December 31, 2008 (2007: 3.60% to 5.82%).

For the year ended December 31, 2008, the Group recognized a loss on disposal of property, plant and equipment of approximately RMB33 million (2007: approximately RMB142 million).

Upon the completion of the merger with China Netcom (Note 1), management reconsidered the Group's strategy regarding the PHS services business and expected to gradually phase out this operation. Accordingly, it was expected that the economic performance of PHS services business would deteriorate significantly. Updated analyses and forecasts were prepared by the Group to determine if there had been an impairment of assets. The test for impairment was conducted for the PHS services related equipment, after considering the expected significant decline in revenue and profitability in 2009 and onwards. The impaired PHS services related equipment was written down to their recoverable values, which was determined based on their estimated value in use. Estimated value in use is determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS services related equipment. In estimating the future net cash flows, the Group has made key assumptions and estimates on the appropriate discount rate of 15%, the period covered by the cash flow forecast of 3 years, the future loss of customers at an annual rate of decline ranging from 60% to 80%, and the decrease in average revenue per subscriber at an annual rate of decline at 15%.

These assumptions and estimates are made after considering the historical trends, the prevailing market trends, expected remaining life of the PHS services business and the physical conditions of the PHS services related equipment. Based on the above, the Group recognized an impairment loss on PHS services related equipment of approximately RMB11,837 million for the year ended December 31, 2008 (2007: Nil).

7. LEASE PREPAYMENTS

The Group's long-term prepayment for land use rights represents prepaid operating lease payments for land use rights in Mainland China and their net book value is analyzed as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Held on:		
Leases of between 10 to 50 years	7,998	7,734
Leases of less than 10 years	<u>65</u>	<u>65</u>
	<u>8,063</u>	<u>7,799</u>

For the year ended December 31, 2008, the long-term prepayment for land use rights expensed in the statement of income amounted to approximately RMB224 million (2007: approximately RMB261 million).

8. GOODWILL

	<u>2007</u>	<u>2008</u>
Cost:		
Beginning of year	3,144	3,144
Disposal of the CDMA Business	<u>—</u>	<u>(373)</u>
End of year	<u>3,144</u>	<u>2,771</u>

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Company in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group's shares of the fair values of the separately identifiable net assets acquired prior to the adoption of HKFRS and AG 5 in 2005 (refer to Note 2.3(a)).

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segments. As of December 31, 2008, all the carrying value of goodwill was attributable to the GSM business. The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including revenue annual growth rate of 6% and the applicable discount rate of 12%. Management determined expected operation results based on past performance and its expectations in relation to market developments. The expected growth rates used are consistent with the forecasts of the business segments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management's assessment results, there was no impairment of goodwill as of December 31, 2007 and 2008 and no reasonable change to the assumptions would lead to an impairment.

Upon disposal of the CDMA Business effective on October 1, 2008, goodwill of approximately RMB373 million attributable to the CDMA business arising from the above acquisitions was derecognized.

9. TAXATION

Hong Kong income tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable income for the year. Taxation on income from outside Hong Kong has been calculated on the estimated assessable income for the year at the rates of taxation prevailing in the countries in which the Group operates the Company's subsidiaries are mainly operated in PRC, the applicable standard enterprise income tax rate is 25% (2007: 33%).

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Provision for enterprise income tax on the estimated taxable income for the year		
- Hong Kong	18	24
- Outside Hong Kong	<u>7,169</u>	<u>4,631</u>
	7,187	4,655
Deferred taxation	<u>(104)</u>	<u>(2,854)</u>
Income tax expense	<u>7,083</u>	<u>1,801</u>

- (a) Pursuant to the new PRC enterprise income tax law passed by the Tenth National People's Congress on March 16, 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and are effective from January 1, 2008 (2007: 33%). However, for entities operating in special economic zones that previously enjoyed preferential tax rates, the applicable tax rate will be increased progressively to 25% over a five-year period.
- (b) On December 6, 2007, the State Council issued the detailed implementation regulations of the new PRC enterprise income tax law. Pursuant to the regulations, a 10% withholding income tax will be levied on dividends declared on or after January 1, 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). The Company has made an assessment as of December 31, 2008, based on existing laws and regulations at that time and other factors such as sources of income, composition of the Board of Directors and the location of major assets and accounting records, and concluded that it met the definition of PRC TRE after assessment. Therefore, as of December 31, 2008, the Company's subsidiaries in the PRC did not accrue withholding tax on dividends distributed to the Company and there was no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed income of the Company's subsidiaries in the PRC for the year ended December 31, 2008. On April 22, 2009, the PRC State Administration of Taxation issued a formal notice regarding the determination of PRC TRE status and provided implementation guidance in withholding income tax for non-TRE enterprise shareholders. Accordingly, the Company performed a reassessment and concluded that it continues to meet the definition of PRC TRE. However, with respect to non-TRE enterprise shareholders, the Company will distribute the 2008 final dividend payable to them after deducting the amount of Enterprise Income Tax payable by these non-TRE enterprise shareholders thereon and will reclassify the related dividend payable to withholding tax payable upon the declaration of such dividends. The requirement to withhold tax does not apply to shareholders appearing as individuals in the Company's share register.

Reconciliation between applicable statutory tax rate and the effective tax rate:

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Applicable PRC statutory tax rate		33.0%	25.0%
Non-deductible expenses		0.7%	3.0%
Realized loss on changes in fair value of derivative component of the convertible bonds		0.7%	—
Non-taxable income			
- Tax refund on reinvestment in subsidiaries	27	(4.9%)	—
- Upfront connection fees arising from Fixed-line business		(2.8%)	(4.8%)
Impact of PRC preferential tax rates and tax holiday		(0.8%)	(0.8%)
Effect of change of tax rate under the new PRC enterprise income tax law	(a)	0.3%	—
Others		(0.2%)	(0.3%)
Effective tax rate		<u>26.0%</u>	<u>22.1%</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	2007 (As restated)	2008
Deferred tax assets:		
- Deferred tax asset to be recovered after 12 months	2,617	4,891
- Deferred tax asset to be recovered within 12 months	<u>1,409</u>	<u>1,605</u>
	4,026	6,496
Deferred tax liabilities:		
- Deferred tax liabilities to be settled after 12 months	(533)	(931)
- Deferred tax liabilities to be settled within 12 months	<u>(979)</u>	<u>(239)</u>
	(1,512)	(1,170)
Net deferred tax assets after offsetting	<u>2,514</u>	<u>5,326</u>
Deferred tax liabilities that cannot be offset	<u>(17)</u>	<u>(16)</u>

There were no material unrecognized deferred tax assets as of December 31, 2007 and 2008.

The movement of the net deferred tax assets/liabilities is as follows:

	2007 (As restated)	2008
Net deferred tax assets after offsetting:		
- Beginning of year	2,994	2,514
- Deferred tax credited/(charged) to the statement of income		
- Continuing operations	106	2,853
- Discontinued operations	(32)	(35)
- Deferred tax charged to equity	(529)	—
- Disposal of discontinued operations	<u>(25)</u>	<u>(6)</u>
- End of year	<u>2,514</u>	<u>5,326</u>
The deferred tax liabilities that cannot be offset:		
- Beginning of year	(15)	(17)
- Deferred tax (charged)/credited to the statement of income	<u>(2)</u>	<u>1</u>
- End of year	<u>(17)</u>	<u>(16)</u>

9. TAXATION

Deferred taxation as of year-end represents the taxation effect of the following temporary differences, taking into consideration the offsetting of balances related to the same tax authority:

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Mainland China			
Deferred tax assets:			
Provision for doubtful debts		742	788
Impairment loss on property, plant and equipment	6	20	2,924
Unrecognized revaluation surplus on property, plant and equipment	i	2,061	1,991
Revaluation deficit on property, plant and equipment	ii	236	170
Write-down of inventories to net realizable value		41	11
Accruals of expenses not yet deductible for tax purpose		144	145
Deferral and amortization of upfront non-refundable revenue		396	177
Deferred revenue on subscriber points reward program		177	43
Deferred revenue in relation to the provision of supporting services upon the disposal of the CDMA Business	37.2(b)	—	102
Accruals of retirement benefits		40	33
Others		<u>169</u>	<u>112</u>
		<u>4,026</u>	<u>6,496</u>
Deferred tax liabilities:			
Capitalization and amortization of direct incremental costs		(322)	(124)
Capitalized interest already deducted for tax purpose		(830)	(703)
Revaluation surplus on property, plant and equipment	ii	<u>(360)</u>	<u>(343)</u>
		<u>(1,512)</u>	<u>(1,170)</u>
		<u>2,514</u>	<u>5,326</u>
Outside Mainland China			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		<u>(17)</u>	<u>(16)</u>

- (i) Prior to the merger, the prepayments for the leasehold land and buildings held by China Netcom were revalued for PRC tax purposes as of December 31, 2003 and 2004. However, the resulting revaluations of the prepayments for the leasehold land and buildings were not recognized under IFRS/HKFRS. Accordingly, deferred tax assets were recorded by the Group under IFRS/HKFRS.
- (ii) The property, plant and equipment other than buildings and telecommunications equipment of GSM business are carried at revalued amount under IFRS/HKFRS, which are not used for PRC tax reporting purposes. As a result, the Group recorded the deferred tax assets or liabilities arising from the revaluation deficit or surplus under IFRS/HKFRS.

10. OTHER ASSETS

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Direct incremental costs for activating mobile subscribers		1,301	499
Customer acquisition costs of contractual CDMA subscribers	4.2(a)	2,349	—
Installation costs of Fixed-line services		2,848	2,251
Prepaid rental for premises and leased lines		1,887	2,121
Purchased software		2,432	2,837
Others		<u>1,264</u>	<u>1,288</u>
		<u>12,081</u>	<u>8,996</u>

11. SUBSIDIARIES

Investments in subsidiaries

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Unlisted equity investments, at cost	<u>55,938</u>	<u>159,761</u>

As of December 31, 2008, the details of the Company's subsidiaries are as follows:

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particular of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China United Network Communications Corporation Limited (formerly known as China Unicom Corporation Limited)	The PRC, April 21, 2000, limited liability company	100%	—	RMB 64,721,120,000	Telecommunications operation in the PRC
Unicom New World (BVI) Limited	British Virgin Islands, November 5, 2003, limited company	100%	—	1,000 shares, HKD1 each	Investment holding in BVI
China Unicom International Limited	Hong Kong, May 24, 2000, limited company	100%	—	60,100,000 shares, HKD1 each	Telecommunications service in Hong Kong
China Unicom USA Corporation	The United States of America (the "USA"), May 24, 2002, corporation	—	100%	USD 500,000	Telecommunications service in the USA
Billion Express Investments Limited	British Virgin Islands, August 15, 2007, limited company	100%	—	1 share, USD1 each	Investment holding in BVI
China Unicom Limited (formerly known as Central Link Investment Limited)	Hong Kong, August 31, 2007 limited company	—	100%	2 shares, HKD1 each	Dormant
Unicom Vsens Telecommunications Company Limited	The PRC, August 19, 2008, Limited liability company	—	100%	RMB 500,000,000	Sales of handsets, telecommunication equipment and provision of technical services in the PRC
China Unicom Mobile Network Company Limited	The PRC, December 31, 2008, Limited liability company	—	100%	RMB 500,000,000	Construction and maintenance of the network in the PRC

Name	Place and date of incorporation and nature of legal entity	Percentage of equity interests held		Particular of issued share capital	Principal activities and place of operation
		Direct	Indirect		
China Netcom Group Corporation (Hong Kong) Limited	Hong Kong, October 22, 1999, limited company	100%	—	6,699,197,200 shares, USD0.04 each	Investment holding in Hong Kong
China Netcom (Group) Company Limited	The PRC, August 6, 1999, limited liability company	—	100%	RMB 73,370,557,827.69	Provision of network communications services in the PRC
China Netcom Corporation International Limited	Bermuda, October 15, 2002, limited company	—	100%	USD 12,000	Investment holding in Bermuda
China Netcom Group System Integration Limited Corporation	The PRC, April 30, 2006, limited liability company	—	100%	RMB 550,000,000	Provision of system integration services in the PRC
China Netcom Group Broadband Online Limited Corporation	The PRC, March 29, 2006, limited liability company	—	100%	RMB 30,000,000	Provision of internet information services and value-added telecommunications services in the PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited	The PRC, June 1, 2007 limited liability company	—	100%	RMB 264,227,115.02	Provision of telecommunications network construction, planning and technical consulting services in the PRC

12. INVENTORIES AND CONSUMABLES

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Handsets and other customer end products	1,753	302
Telephone cards	585	403
Consumables	449	422
Others	<u>28</u>	<u>44</u>
	<u>2,815</u>	<u>1,171</u>

13. ACCOUNTS RECEIVABLE, NET

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Accounts receivable for GSM business	2,559	3,098
Accounts receivable for CDMA business	1,637	—
Accounts receivable for Fixed-line business	<u>9,788</u>	<u>8,689</u>
Sub-total	13,984	11,787
Less: Provision for doubtful debts for GSM business	(1,028)	(1,347)
Provision for doubtful debts for CDMA business	(442)	—
Provision for doubtful debts for Fixed-line business	<u>(1,500)</u>	<u>(1,853)</u>
	<u>11,014</u>	<u>8,587</u>

The aging analysis of accounts receivable is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Within one month	7,295	6,078
More than one month to three months	2,595	1,479
More than three months to one year	2,882	2,792
More than one year	<u>1,212</u>	<u>1,438</u>
	<u>13,984</u>	<u>11,787</u>

The normal credit period granted by the Group is on average between 30 days to 90 days from the date of billing.

There is no significant concentration of credit risk with respect to individual customers' receivables, as the Group has a large number of customers.

As of December 31, 2008, accounts receivable of approximately RMB2,039 million (2007: approximately RMB2,726 million) were past due but not impaired. These relate to customers for which there is no recent history of default. The aged analysis of these receivables is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
More than one month to three months	2,095	1,546
More than three months to one year	499	323
More than one year	<u>132</u>	<u>170</u>
	<u>2,726</u>	<u>2,039</u>

As of December 31, 2008, accounts receivable of approximately RMB3,200 million (2007: approximately RMB2,970 million) were impaired. The individually impaired receivables mainly relate to subscriber usage fees. The aging of these receivables is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
More than three months to one year	2,054	2,023
More than one year	<u>916</u>	<u>1,177</u>
	<u>2,970</u>	<u>3,200</u>

Provision for doubtful debts is analyzed as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Balance, beginning of year	4,386	2,970
Provision for the year:		
- Continuing operations	2,200	2,900
- Discontinued operations	378	383
Written-off during the year	(3,954)	(2,393)
Disposal of discontinued operations	<u>(40)</u>	<u>(660)</u>
Balance, end of year	<u>2,970</u>	<u>3,200</u>

The creation and release of provisions for impaired receivables have been recognized in the statement of income. Amounts charged to the allowance account are generally written-off when there is reliable evidence to indicate no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of accounts receivable mentioned above. The Group does not hold any collateral as security.

14. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Prepaid rental		526	670
Deposits and prepayments		915	800
Advances to employees		225	226
Customer acquisition costs of contractual CDMA subscribers	4.2(a)	508	—
Tax refund on reinvestment in a subsidiary	27	1,459	—
Others		<u>681</u>	<u>731</u>
		<u>4,314</u>	<u>2,427</u>

The aging analysis of prepayments and other current assets is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Within one year	3,989	2,106
More than one year	<u>325</u>	<u>321</u>
	<u>4,314</u>	<u>2,427</u>

As of December 31, 2007 and 2008, there was no impairment for the prepayments and other current assets.

15. SHORT-TERM BANK DEPOSITS

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Bank deposits with maturity exceeding three months	721	221
Restricted bank deposits	<u>14</u>	<u>17</u>
	<u>735</u>	<u>238</u>

As of December 31, 2007 and 2008, restricted bank deposits primarily represented deposits that were subject to externally imposed restriction relating to construction payable as requested by a contractor.

16. CASH AND CASH EQUIVALENTS

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Cash at bank and in hand	11,388	8,721
Bank deposits with original maturities of three months or less	<u>591</u>	<u>517</u>
	<u>11,979</u>	<u>9,238</u>

17. SHARE CAPITAL

				<u>2007</u> HKD millions	<u>2008</u> HKD millions
Authorized:					
30,000,000,000 ordinary shares of HKD0.10 each				<u>3,000</u>	<u>3,000</u>
	Number of Shares millions	Ordinary shares, par value of HKD0.10 each HKD millions	Share capital	Share premium	Total
Issued and fully paid:					
At January 1, 2007	12,681	1,268	1,344	53,223	54,567
Employee share option scheme					
- Issuance of shares upon exercise of options (Note 32)	54	5	5	366	371
Conversion of convertible bonds	<u>900</u>	<u>90</u>	<u>88</u>	<u>10,731</u>	<u>10,819</u>
At December 31, 2007	13,635	1,363	1,437	64,320	65,757
Employee share option scheme					
- Issuance of shares upon exercise of options (Note 32)	31	3	3	252	255
Issuance of shares in connection with 2008 Business Combination (Note a)	<u>10,102</u>	<u>1,010</u>	<u>889</u>	<u>102,212</u>	<u>103,101</u>
At December 31, 2008	<u>23,768</u>	<u>2,376</u>	<u>2,329</u>	<u>166,784</u>	<u>169,113</u>

Note a : Pursuant to an ordinary resolution passed at the extraordinary general meeting held on September 16, 2008, the Company issued 10,102,389,377 ordinary shares of HKD0.10 each at a price of HKD11.60 per share with fair value or total price of approximately RMB103.1 billion on October 15, 2008 in exchange for the entire issued share capital of China Netcom. Please refer to Note 1 for details.

18. RESERVES

Nature and purpose of statutory reserves

CUCL and CNC China are registered as foreign investment enterprises in the PRC. In accordance with the respective Articles of Association, they are required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after tax and minority interests but before dividend distribution.

CUCL and CNC China are required to allocate at least 10% of their income after tax and minority interests determined under the PRC Company Law to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

Accordingly, CUCL and CNC China appropriated approximately RMB3,523 million and RMB19 million, respectively (2007: approximately RMB718 million and RMB868 million, respectively), to the general reserve fund for the year ended December 31, 2008.

Appropriation to the staff bonus and welfare fund is at the discretion of the directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and cannot be distributed as cash dividends. Under IFRS/HKFRS, the appropriations to the staff bonus and welfare fund will be charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended December 31, 2007 and 2008, no appropriation to staff bonus and welfare fund has been made by CUCL or CNC China.

According to a PRC tax approval document issued by the Ministry of Finance and State Administration of Taxation to the Group, the Group's upfront connection fees in respect of Fixed-line business are not subject to PRC enterprise income tax and an amount equal to the upfront connection fees recognized in the retained profits should be transferred from retained profits to a statutory reserve. Up to December 31, 2008, the Group has made an accumulated appropriation of approximately RMB11,592 million to the statutory reserve (Up to December 31, 2007: approximately RMB10,706 million).

19. LONG-TERM BANK LOANS

	Interest rates and final maturity	2007 (As restated)	2008
RMB denominated bank loans	Fixed interest rates of 3.60% per annum with maturity through 2010		
- unsecured		200	—
		<u>200</u>	<u>—</u>
RMB denominated bank loans	Floating interest rates ranging from 4.86% to 6.80% (2007: 2.40% to 10.08%) per annum with maturity through 2009 (2007: maturity through 2009)		
- unsecured		18,399	1,114
		<u>18,399</u>	<u>1,114</u>
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.65% (2007: Nil to 6.15%) per annum with maturity through 2039 (2007: maturity through 2039)		
- secured		211	146
- unsecured		377	377
		<u>588</u>	<u>523</u>
USD denominated bank loans	Floating interest rates of USD LIBOR plus interest margin 0.35% to 0.44% for 2007 per annum with maturity through 2010 (a)		
- unsecured		3,652	—
		<u>3,652</u>	<u>—</u>
Japanese Yen denominated bank loans	Fixed interest rates of 2.12% (2007: 2.12%) per annum with maturity through 2014 (2007: maturity through 2014)		
- unsecured		234	234
		<u>234</u>	<u>234</u>
Euro denominated bank loans	Fixed interest rates ranging from 0.50% to 2.50% (2007: 1.10% to 7.85%) per annum with maturity through 2034 (2007: maturity through 2034)		
- unsecured		415	342
		<u>415</u>	<u>342</u>
HKD denominated bank loans	Fixed interest rates of 3.75% for 2007 per annum with maturity through 2010		
- unsecured		9	—
		<u>9</u>	<u>—</u>
Sub-total		23,497	2,213
Less: Current portion		(7,411)	(1,216)
		<u>16,086</u>	<u>997</u>

The repayment schedule of the long-term bank loans is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Balances due:		
- no later than one year	7,411	1,216
- later than one year and no later than two years	9,671	96
- later than two years and no later than five years	3,613	287
- later than five years	<u>2,802</u>	<u>614</u>
	23,497	2,213
Less: Portion classified as current liabilities	<u>(7,411)</u>	<u>(1,216)</u>
	<u>16,086</u>	<u>997</u>

(a) On September 26, 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD700 million. This facility was split into 3 tranches (i) USD200 million 3-year loan; (ii) USD300 million 5-year loan; and (iii) USD200 million 7-year loan and carried an interest rate of 0.28%, 0.35% and 0.44% over US dollar LIBOR per annum for each tranche, respectively. In October 2003, the Company and CUCL entered into an agreement to re-lend such funds to CUCL with similar terms to finance the network construction of CUCL. The Company fully repaid the USD200 million 3-year loan in 2006, the USD300 million 5-year loan in September 2008 and the USD200 million 7-year loan in November 2008 after obtaining consent for repayment from the relevant lenders.

(b) The fair values of the Group's non-current portion of long-term bank loans as of December 31, 2007 and 2008 were as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Long-term bank loans	<u>14,547</u>	<u>690</u>

The fair value is calculated based on cash flows discounted using rates based on the market rates ranging from 4.59% to 6.56% (December 31, 2007: 3.25% to 7.05%).

(c) As of December 31, 2008, bank loans of approximately RMB146 million (2007: approximately RMB163 million) were secured by corporate guarantees granted by third parties.

(d) As of December 31, 2008, there were no corporate guarantees granted by Netcom Group (2007: RMB49 million).

20. CORPORATE BONDS

On June 8, 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

On September 3, 2008, the Group issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a corporate guarantee granted by State Grid Corporation of China.

21. CONVERTIBLE BONDS

On August 20, 2007, the Company received a notice delivered by SK Telecom Co., Ltd. (“SK Telecom”), the sole holder of outstanding zero coupon convertible bonds of USD1 billion, pursuant to the terms and conditions of the convertible bonds for the conversion in full of the convertible bonds into the Company’s shares. Accordingly, on August 31, 2007, the Company allotted and issued 899,745,075 ordinary shares of HKD0.10 each of the Company to SK Telecom.

Prior to the conversion, the change in the fair value of the conversion option from December 31, 2006 to August 20, 2007 resulted in a fair value loss of approximately RMB569 million, which has been recorded in the “Realized loss on changes in fair value of derivative component of the convertible bonds” in the statement of income for the year ended December 31, 2007.

The convertible bonds with carrying value of approximately RMB10,818 million as of August 20, 2007 were fully converted into 899,745,075 ordinary shares of HKD0.10 each of the Company. The share conversion resulted in an increase in share capital and share premium by approximately RMB88 million and RMB10,731 million, respectively (Note 17).

22. OTHER OBLIGATIONS

	Contractual obligations in relation to early retirement benefits Note (b)	Provision made in relation to one-off cash housing subsidies Note (a) & (b)	Total
As of January 1, 2007	3,137	3,185	6,322
Additions during the year	—	—	—
Payments during the year	(605)	(329)	(934)
As of December 31, 2007	<u>2,532</u>	<u>2,856</u>	<u>5,388</u>
Analysis of total other obligations:			
- current portion	525	2,856	3,381
- non-current portion	<u>2,007</u>	—	<u>2,007</u>
	<u>2,532</u>	<u>2,856</u>	<u>5,388</u>
As of January 1, 2008	2,532	2,856	5,388
Additions during the year	—	—	—
Payments during the year	(423)	(354)	(777)
As of December 31, 2008	<u>2,109</u>	<u>2,502</u>	<u>4,611</u>
Analysis of total other obligations:			
- current portion	510	2,502	3,012
- non-current portion	<u>1,599</u>	—	<u>1,599</u>
	<u>2,109</u>	<u>2,502</u>	<u>4,611</u>

- (a) Certain staff quarters, prior to 1998, have been sold to certain of the Group's employees at preferential prices, subject to a number of eligibility requirements. In 1998, the State Council issued a circular which stipulated that the sale of quarters to employees at preferential prices should be terminated. In 2000, the State Council issued a further circular stating that cash subsidies should be made to certain eligible employees following the withdrawal of the allocation of staff quarters. However, the specific timetable and procedures for the implementation of these policies were to be determined by individual provincial or municipal governments based on the particular situation of the provinces or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters or who had not been allocated with quarters up to the prescribed standards before the discounted sales of quarters were terminated, the Group is required to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. Based on the available information, the Group estimated the required provision for these cash housing subsidies amounting to RMB4,142 million, which was charged to the statement of income for the year ended December 31, 2000 (the year in which the Council circular in respect of cash subsidies was issued).

- (b) Pursuant to the reorganization undertaken on June 30, 2004 between China Netcom, China Netcom (Holding) Company Limited and Netcom Group and the acquisition of the principal telecommunications operations, assets and liabilities in the four Northern provinces/autonomous region, namely Shanxi province, Neimenggu autonomous region, Jilin province and Heilongjiang province from Netcom Group (the "Acquisition of New Horizon"), if the actual payments required for these subsidies and early retirement benefits differ from the amount provided as of June 30, 2004 and June 30, 2005, Netcom Group would bear any additional payments required or would be paid the difference if the actual payments are lower than the amount provided. Upon the completion of Parent Merger, Unicom Group has assumed all the rights and obligations of Netcom Group.

23. PAYABLES AND ACCRUED LIABILITIES

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Payables to contractors and equipment suppliers	32,700	52,389
Payables to telecommunications product suppliers	2,949	1,491
Customer/contractor deposits	2,826	2,082
Repair and maintenance expense payables	1,774	1,511
Salary and welfare payables	1,311	949
Interest payable	468	263
Amounts due to services providers/content providers	1,256	961
Accrued expenses	3,534	3,064
Others	<u>2,494</u>	<u>2,977</u>
	<u>49,312</u>	<u>65,687</u>

The aging analysis of payables and accrued liabilities is as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Less than six months	36,502	51,975
Six months to one year	6,754	7,052
More than one year	<u>6,056</u>	<u>6,660</u>
	<u>49,312</u>	<u>65,687</u>

24. SHORT-TERM COMMERCIAL PAPER

CNC China issued unsecured commercial paper in the PRC capital market in two lots of RMB10 billion each with repayment periods of 365 days and 270 days on April 30, 2007 and September 18, 2007 respectively. The effective interest rates are 3.34% and 3.93% per annum respectively. The aggregated net cash proceeds raised in these exercises was RMB20 billion. These commercial papers were fully repaid on May 9, 2008 and June 16, 2008, respectively.

CNC China issued RMB10 billion unsecured commercial paper with repayment periods of 365 days on October 6, 2008 in the PRC capital market. The effective interest rate is 4.47% per annum. The net cash proceeds raised in the PRC capital market were RMB10 billion.

25. SHORT-TERM BANK LOANS

	Interest rates and final maturity	2007 (As restated)	2008
RMB denominated bank loans	Fixed interest rates ranging from 4.54% to 6.80% (2007: 4.86% to 6.72%) per annum with maturity through 2009 (2007: maturity through 2008)		
- unsecured		<u>11,850</u>	<u>10,780</u>
		<u>11,850</u>	<u>10,780</u>

The carrying values of short-term bank loans approximate their fair values as of the balance sheet date.

26. REVENUE

The tariffs for the services provided by the Group are subject to regulations by various government authorities, including the NDRC, the MIIT and the provincial price regulatory authorities.

Revenue from continuing operations is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to approximately RMB4,164 million for the year ended December 31, 2008 (2007: approximately RMB4,191 million).

The major components of revenue for continuing operations are as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
GSM business		
- Usage and monthly fees	42,077	40,464
- Value-added services revenue	13,528	16,263
- Interconnection fee	5,851	6,858
- Other service revenue	<u>1,091</u>	<u>1,119</u>
Total GSM service revenue	<u>62,547</u>	<u>64,704</u>
Fixed-line business		
- Usage and monthly fees	44,227	37,324
- Broadband services revenue	14,273	18,114
- Interconnection fees	7,911	7,500
- Value-added services revenue	6,758	6,591
- Leased line income	3,741	4,597
- Information communications technology services revenue	3,986	3,124
- Other Internet-related services and managed data services revenue	1,835	1,673
- Upfront installation fees	1,283	1,181
- Upfront connection fees	1,517	886
- Advertising and media services revenue	380	697
- Other service revenue	<u>1,289</u>	<u>861</u>
Total Fixed-line service revenue	<u>87,200</u>	<u>82,548</u>
Sales of telecommunications products	<u>940</u>	<u>1,654</u>
Total revenue from external customers	<u>150,687</u>	<u>148,906</u>

27. OTHER INCOME — NET

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Continuing operations:			
Tax refund on reinvestment in subsidiaries	(a)	4,001	—
Gain on the non-monetary assets exchange	(b)	386	1,305
Others		<u>603</u>	<u>689</u>
		<u>4,990</u>	<u>1,994</u>

Note (a): During 2007, the Company and China Netcom reinvested their undistributed profits into the subsidiaries and were granted a refund of a portion of the taxes previously paid by these subsidiaries as permitted under the tax law effective until December 31, 2007.

This tax refund on reinvestment in subsidiaries was recorded as “other income”.

Note (b): Please refer to Note (b)(iii) to the consolidated statement of cash flows for details.

28. NETWORKS, OPERATIONS AND SUPPORT EXPENSES

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Continuing operations:		
Repair and maintenance	5,466	5,431
Power and water charges	4,952	5,451
Operating leases	3,453	3,613
Consumables	1,524	1,384
Others	<u>627</u>	<u>698</u>
Total networks, operations and support expenses	<u>16,022</u>	<u>16,577</u>

29. OTHER OPERATING EXPENSES

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Continuing operations:		
Provision for doubtful debts	2,200	2,900
Cost of telecommunications products sold	1,233	2,067
Cost of hardware sold in relation to information communications technology services	3,491	2,461
Commission expenses	9,784	10,104
Advertising and promotion expenses	2,601	2,669
Customer installation cost	2,036	1,961
Customer acquisition and retention cost	3,068	2,650
Auditors' remuneration	123	107
Property management charge	923	1,090
Office and administrative expenses	2,728	2,440
Transportation expense	1,492	1,714
Miscellaneous taxes and fees	504	566
Others	<u>2,593</u>	<u>2,853</u>
Total other operating expenses	<u>32,776</u>	<u>33,582</u>

30. FINANCE COSTS

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Continuing operations:			
Finance costs:			
- Interest on bank loans, corporate bonds and commercial paper repayable within 5 years		2,992	2,367
- Interest on bank loans, repayable over 5 years		198	144
- Interest expense on convertible bonds		242	—
- Deferred consideration related to Acquisition of New Horizon		375	224
- Less: Amounts capitalized in construction-in-progress	6	<u>(439)</u>	<u>(260)</u>
Total interest expense		3,368	2,475
- Exchange gain, net		(457)	(270)
- Others		320	206
Total finance costs		<u>3,231</u>	<u>2,411</u>

31. EMPLOYEE BENEFIT EXPENSES

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Continuing operations:			
Employee benefit expenses:			
- Salaries and wages		14,087	15,442
- Contributions to defined contribution pension schemes		1,854	2,110
- Contributions to supplementary defined contribution pension schemes		56	51
- Contributions to housing fund		913	1,049
- Monetary housing benefits		27	—
- Other housing benefits		433	166
- Share-based compensation	32	<u>170</u>	<u>84</u>
Total		<u>17,540</u>	<u>18,902</u>

32. EQUITY-SETTLED SHARE OPTION SCHEMES

32.1 Fixed award pre-global offering share option scheme (the “Pre-Global Offering Share Option Scheme”)

Pursuant to the resolution passed by the Board of Directors in June 2000, the Company adopted the Pre-Global Offering Share Option Scheme on June 1, 2000 for the granting of share options to qualified employees on the following terms:

- (i) the exercise price is equivalent to the share issue price of the Global Offering of HKD15.42 per share (excluding the brokerage fee and SEHK transaction levy); and
- (ii) the share options are vested and exercisable after 2 years from the grant date and expire 10 years from the date of grant.

No further options can be granted under the Pre-Global Offering Option Scheme.

The Pre-Global Offering Option Scheme had been amended in conjunction with the amended terms of the share option scheme (Note 32.2) on May 13, 2002 and May 11, 2007, respectively. Apart from the above two terms, the principal terms are substantially the same as the amended Share Option Scheme in all material aspects.

32.2 Share option scheme (the “Share Option Scheme”)

On June 1, 2000, the Company adopted the Share Option Scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up share options to subscribe for shares up to a maximum aggregate number of shares (including those that could be subscribed for under the Pre-Global Offering Share Option Scheme as described above) not exceeding 10% of the total issued share capital of the Company. Pursuant to the Share Option Scheme, the nominal consideration payable by a participant for the grant of share options will be HKD1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of the share; and
- (ii) 80% of the average of the closing prices of shares on the SEHK on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the SEHK.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years from June 22, 2000.

The terms of the Share Option Scheme were amended on May 13, 2002 to comply with the requirements set out in the Chapter 17 of the Listing Rules which came into effect on September 1, 2001 with the following major amendments:

- (i) share option may be granted to employees including executive directors of the Group or any of the non-executive directors;
- (ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and
- (iii) minimum subscription price shall not be less than the higher of:
 - the nominal value of the shares;
 - the closing price of the shares of the stock exchange as stated in the stock exchange's quotation sheets on the offer date in respect of the share options; and
 - the average closing price of the shares on the stock exchange's quotation sheets for the five trading days immediately preceding the offer date.

On May 11, 2007, the Company further amended the Share Option Scheme with major amendments related to the exercise of options upon cessation of employment. These amendments are made in order to reduce the administrative burden on the Company to monitor outstanding options for grantees whose employment has been terminated.

All of the share options granted under Note 32.1 and 32.2 are governed by the amended terms of the Pre-Global Share Option Scheme and the Share Option Scheme as mentioned above.

32.3 Special Purpose Unicom Share Option Scheme (the “Special Purpose Share Option Scheme”)

Prior to the 2008 Business Combination, China Netcom granted share options to its directors and employees (including employees of its subsidiaries) in years 2004 and 2005 pursuant to a shareholders’ resolution passed on September 30, 2004.

Pursuant to China Netcom’s share option plan, China Netcom granted 158,640,000 options with an exercise price of HKD8.40 each to certain of its directors and employees, immediately prior to the closing of its global offering on October 22, 2004, to subscribe for its ordinary shares at the initial public offering price under the Hong Kong public offering (“First Grant”), excluding brokerage and trading fees, and transaction and investor compensation levies. The First Grant had an exercise period of six years from the date of grant. The grantees could exercise 40 percent of the options granted from May 17, 2006, a further 20 percent of the options granted from May 17, 2007, a further 20 percent of the options granted from May 17, 2008 and a further 20 percent of the options granted from May 17, 2009. All unexercised share options were to expire on November 16, 2010.

On December 6, 2005, the board of directors of China Netcom approved the grant of 79,320,000 shares of share options with an exercise price of HKD12.45 to certain management personnel and other professional personnel designated by the Compensation Committee of the newly acquired four Northern provinces/autonomous region (“Second Grant”). The grantees could exercise 40 percent of the options granted from December 6, 2007, a further 20 percent of the options granted from December 6, 2008, a further 20 percent of the options granted from December 6, 2009 and a further 20 percent of the options granted from December 6, 2010. All unexercised share options were to expire on December 5, 2011.

The grant date fair value of the share options granted in the First Grant and the Second Grant was determined by the Black-Scholes model. The weighted average fair value of the First Grant and the Second Grant on grant date was determined as HKD1.22 per share (RMB1.28 per share) and HKD1.28 per share (RMB1.34 per share), respectively.

Modifications to certain clauses of the share options schemes of China Netcom were approved on May 16, 2006, pursuant to a resolution of the extraordinary general meeting of China Netcom. The modifications were mainly related to eligibility of the participants, number of options and exercise vesting schedules, rights upon cessation of employment, death and loss of capacity, performance targets, and cancellation of options. The modifications did not have any significant impact on the financial statements.

Pursuant to the ordinary resolution passed by the shareholders on September 16, 2008, the Company adopted the Special Purpose Share Option Scheme in connection with the merger of the Company and China Netcom by way of a scheme of arrangement of China Netcom under Section 166 of the Companies Ordinance for the granting of options to holders of China Netcom options outstanding at October 14, 2008 (“Eligible Participants”). Pursuant to this scheme, no fractional options can be granted and the maximum number of shares which may be issued upon the exercise of all options granted under this scheme and any other share options schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as of the date of approval of this scheme.

The number of options and exercise price of options granted under the Special Purpose Share Option Scheme are as follows:

- (i) The exercise price of options under this scheme is equal to (a) the exercise price of an outstanding China Netcom option held by the Eligible Participants, divided by (b) the share exchange ratio 1.508.
- (ii) The total number of options granted by the Company to all Eligible Participants under this scheme shall be equal to the product of (a) the share exchange ratio and (b) the number of China Netcom options outstanding as of October 14, 2008.

The above formula ensures that the value of options which granted under this scheme received by a holder of China Netcom options is equivalent to the “see-through” price of that holder’s outstanding China Netcom options.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than September 30, 2014.

No further options can be granted under the Special Purpose Share Option Scheme.

Details of share options granted by China Netcom, immediately prior to the merger between the Company and China Netcom (i.e. October 14, 2008) and the share options outstanding, immediately prior to the merger between the Company and China Netcom (i.e. October 14, 2008) are as follows:

	2007		For the period from January 1, 2008 to October 14, 2008	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year/period	10.21	176,646,900	10.32	150,844,560
Granted	—	—	—	—
Forfeited/cancelled	8.40	(2,117,440)	9.55	(139,620)
Cancelled in exchange for the Company's options	—	—	10.30	(125,836,140)
Exercised	9.67	(23,684,900)	10.45	(24,868,800)
Balance, end of year/period	<u>10.32</u>	<u>150,844,560</u>	<u>—</u>	<u>—</u>
Representing:				
First Grant		79,263,860		—
Second Grant		<u>71,580,700</u>		<u>—</u>
Balance, end of year/period		<u>150,844,560</u>		<u>—</u>
Exercisable at end of year/period	<u>10.59</u>	<u>45,218,610</u>	<u>—</u>	<u>—</u>

Details of share options of China Netcom exercised during 2007 and the period from January 1, 2008 to October 14, 2008 are as follows:

For the year ended December 31, 2007:

Grant	Exercise price HKD	Weighted average closing price per share at respective days immediately before date of exercise of options HKD	Proceeds received HKD	Number of shares involved
First Grant	8.40	22.23	136,343,760	16,231,400
Second Grant	12.45	23.92	<u>92,796,075</u>	<u>7,453,500</u>
			<u>229,139,835</u>	<u>23,684,900</u>

For the period from January 1, 2008 to October 14, 2008:

Grant	Exercise price HKD	Weighted average closing price per share at respective days immediately before date of exercise of options HKD	Proceeds received HKD	Number of shares involved
First Grant	8.40	26.17	103,316,640	12,299,600
Second Grant	12.45	25.46	<u>156,486,540</u>	<u>12,569,200</u>
			<u>259,803,180</u>	<u>24,868,800</u>

The Group accounted for the exchange of options based on the estimated fair value of share options at the modification date by using the Black-Scholes valuation model. Because the Black-Scholes valuation model requires the input of subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Accordingly, the weighted average fair values of 2004 and 2005 Special Purpose Share Options granted under the Special Purpose Share Option Scheme was HKD6.01 and HKD4.00, respectively. The significant assumptions used and the numbers of options granted are as follows:

	2004 Special Purpose Share Option	2005 Special Purpose Share Option
Stock price	HKD11.60	HKD11.60
Exercise price	HKD5.57	HKD8.26
Volatility	55%	49%
Dividend yield	2%	2%
Risk-free rate	0.24-1.06%	0.28-1.54%
Expected life	0.30-1.09 years	0.32-2.32 years
Weighted average option value	HKD6.01	HKD4.00
Number of options granted	100,831,432	88,929,468

The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the last 2 to 3 years. Expected dividends were based on historical dividends. Risk-free rate was by reference to the yield of Hong Kong Exchange Fund Notes with a term similar to the expected option life.

The total incremental fair value of the exchanged options was determined to be RMB21 million which was measured by reference to the incremental fair value of the options granted under the Special Purpose Share Option Scheme as of October 15, 2008 (the modification date) over the fair value of China Netcom options as of October 15, 2008. For the year ended December 31, 2008, share-based compensation expense of approximately RMB9 million was recorded by the Group as a result of this modification.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2008	
	Average exercise price in HKD per share	Number of share options involved	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of year	6.95	314,256,000	7.12	257,279,600
Granted	—	—	6.83	189,760,900
Forfeited	8.43	(3,420,800)	6.37	(2,720,334)
Exercised	6.03	(53,555,600)	7.62	(31,246,000)
Balance, end of year	<u>7.12</u>	<u>257,279,600</u>	<u>6.95</u>	<u>413,074,166</u>
Exercisable at end of year	<u>8.48</u>	<u>92,713,600</u>	<u>7.14</u>	<u>245,359,027</u>

Employee share options exercised for the year ended 31 December 2008 resulted in 31,246,000 shares being issued (2007: 53,555,600 shares), with exercise proceeds of approximately RMB216 million (2007: approximately RMB313 million).

As of balance sheet date, information of outstanding share options is summarized as follows:

<u>Date of options grant</u>	<u>Vesting period</u>	<u>Exercisable period</u>	<u>The price per share to be paid on exercise of options</u>	<u>Number of share options outstanding as of December 31, 2007</u>	<u>Number of share options outstanding as of December 31, 2008</u>
Share options granted under the Pre-Global Offering Share Option Scheme:					
June 22, 2000	June 22, 2000 to June 21, 2002	June 22, 2002 to June 21, 2010	HKD15.42	21,126,800	16,977,600
Share options granted under the Share Option Scheme:					
June 30, 2001	June 30, 2001	June 30, 2001 to June 22, 2010	HKD15.42	5,608,000	4,350,000
July 10, 2002 (Note i)	July 10, 2002 to July 10, 2005	July 10, 2003 to July 9, 2008	HKD6.18	3,308,000	—
May 21, 2003	May 21, 2003 to May 21, 2006	May 21, 2004 to May 20, 2009	HKD4.30	11,092,800	8,956,000
July 20, 2004	July 20, 2004 to July 20, 2007	July 20, 2005 to July 19, 2010	HKD5.92	50,924,000	41,024,000
December 21, 2004	December 21, 2004 to December 21, 2007	December 21, 2005 to December 20, 2010	HKD6.20	654,000	654,000
February 15, 2006	February 15, 2006 to February 15, 2009	February 15, 2008 to February 14, 2012	HKD6.35	164,566,000	151,556,000
Share options granted under the Special Purpose Share Option Scheme:					
October 15, 2008 (“2004 Special Purpose Share Options”)	October 15, 2008 to May 17, 2009	October 15, 2008 to November 16, 2010	HKD5.57	—	100,627,098
October 15, 2008 (“2005 Special Purpose Share Options”)	October 15, 2008 to December 6, 2010	October 15, 2008 to December 5, 2011	HKD8.26	—	88,929,468
				<u>257,279,600</u>	<u>413,074,166</u>

The options outstanding as of December 31, 2008 had a weighted average remaining contractual life of 2.47 years (2007: 3.47 years).

Note i: As all outstanding options granted on July 10, 2002 have been exercised, therefore no options are expired under this grant.

Details of share options exercised during 2007 and 2008 are as follows:

For the year ended December 31, 2007:

Grant	Exercise price HKD	Weighted average closing price per share at respective days immediately before date of exercise of options HKD	Proceeds received HKD	Number of shares involved
June 22, 2000	15.42	17.56	34,657,992	2,247,600
June 30, 2001	15.42	17.62	8,450,160	548,000
July 10, 2002	6.18	12.96	49,793,496	8,057,200
May 21, 2003	4.30	12.95	60,057,240	13,966,800
July 20, 2004	5.92	13.77	170,117,120	28,736,000
			<u>323,076,008</u>	<u>53,555,600</u>

For the year ended December 31, 2008:

Grant	Exercise price HKD	Weighted average closing price per share at respective days immediately before date of exercise of options HKD	Proceeds received HKD	Number of shares involved
June 22, 2000	15.42	18.73	63,980,664	4,149,200
June 30, 2001	15.42	18.38	18,781,560	1,218,000
July 10, 2002	6.18	15.88	20,443,440	3,308,000
May 21, 2003	4.30	16.90	8,947,440	2,080,800
July 20, 2004	5.92	17.81	58,240,960	9,838,000
February 15, 2006	6.35	17.62	67,640,200	10,652,000
			<u>238,034,264</u>	<u>31,246,000</u>

For the year ended December 31, 2008, employee share-based compensation expense recorded for continuing operations amounted to approximately RMB84 million (2007: approximately RMB170 million).

33. DISPOSAL GROUP AND DISCONTINUED OPERATIONS

Discontinued operations

On June 2, 2008 and on June 27, 2008, the Company, CUCL and China Telecom entered into the Framework Agreement and the Disposal Agreement, respectively, to sell the CDMA business to China Telecom. The disposal was completed on October 1, 2008 (Note 1). The gain on disposal, net of corresponding income tax of approximately RMB9.0 billion, amounted to approximately RMB26.1 billion.

The net assets of CDMA business as of the effective date of the disposal of the CDMA Business were as listed below:

	<u>Note</u>	<u>As of October 1, 2008</u>
Net assets disposed of:		
Cash and cash equivalents	(a)	4,612
Property, plant and equipment		2,997
Goodwill		373
Deferred tax assets		6
Other assets		3,958
Inventories		525
Accounts receivable, net		690
Prepayments and other current assets		808
Deferred revenue		(444)
Payable and accrued liabilities		(1,144)
Advances from customers		(4,428)
Minority interest		(5)
		<u>7,948</u>
Fair value of future services agreed in Disposal Agreement	37.2(b)	517
Transaction costs and taxations		184
Income tax expense arising from the disposal of the CDMA business		9,016
Gain on the disposal of the CDMA business recognized in statement of income		<u>26,135</u>
Cash consideration on the disposal of the CDMA business		43,800
Less: Cash consideration receivable from the disposal of the CDMA business		(13,140)
Cash and cash equivalents transferred		<u>(1,148)</u>
Net cash inflow		<u><u>29,512</u></u>

Note (a): The balance represented cash and cash equivalents of approximately RMB1,148 million transferred and RMB3,464 million to be transferred to China Telecom in accordance with the Disposal Agreement. For details, please refer to Note 37.2(b).

On January 15, 2007, CNC China, entered into an assets transfer agreement with Netcom Group. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong and Shanghai Branches. The disposal was completed on February 28, 2007. The gain on disposal, net of corresponding income tax of approximately RMB301 million, amounted to approximately RMB626 million.

The net assets of Guangdong and Shanghai Branches as of the completion date are as listed below:

	<u>As of February 28, 2007</u>
Net assets disposed of:	
Cash and cash equivalents	23
Accounts receivable and other current assets	416
Property, plant and equipment and other non-current assets	7,630
Current portion of deferred revenue	(183)
Accounts payable	(2,046)
Long-term bank loans	(3,000)
Other liabilities	(267)
	<u>2,573</u>
Income tax expense arising from the disposal of Guangdong and Shanghai Branches	301
Gain on the disposal of Guangdong and Shanghai Branches recognized in statement of income	<u>626</u>
Cash consideration on the disposal of Guangdong and Shanghai Branches	3,500
Less: cash and cash equivalents included in disposed Guangdong and Shanghai Branches	<u>(23)</u>
Net cash inflow	<u><u>3,477</u></u>

The results and cash flows of the CDMA business and the Fixed-line business-Guangdong and Shanghai Branches for the years ended December 31, 2007 and 2008, respectively, are presented as discontinued operations as follows:

	CDMA Business		Fixed-line business - Guangdong and Shanghai Branches		Total	
	For the year ended December 31, 2007	For the period from January 1, 2008 to September 30, 2008	For the period from January 1, 2007 to February 28, 2007	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2008
Revenue	31,197	22,330	615	—	31,812	22,330
Expenses	(30,042)	(20,423)	(618)	—	(30,660)	(20,423)
Income/(loss) before income tax from discontinued operations	1,155	1,907	(3)	—	1,152	1,907
Income tax expenses	(499)	(469)	1	—	(498)	(469)
Income/(loss) for the year/period of discontinued operations	656	1,438	(2)	—	654	1,438
Gain on disposal of discontinued operations before income tax	—	35,151	927	—	927	35,151
Income tax expenses	—	(9,016)	(301)	—	(301)	(9,016)
Gain on disposal of discontinued operations after income tax	—	26,135	626	—	626	26,135
Income for the year/period from discontinued operations	656	27,573	624	—	1,280	27,573
	CDMA Business		Fixed-line business - Guangdong and Shanghai Branches		Total	
	For the year ended December 31, 2007	For the period from January 1, 2008 to September 30, 2008	For the period from January 1, 2007 to February 28, 2007	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2008
Net cash inflow from operating activities	837	656	388	—	1,225	656
Net cash outflow from investing activities	(25)	(23)	(374)	—	(399)	(23)
Cash inflow from disposal of discontinued operations	—	29,512	3,477	—	3,477	29,512
Net cash (outflow)/inflow from investing activities	(25)	29,489	3,103	—	3,078	29,489
Net cash inflow from financing activities	—	—	—	—	—	—
Net cash inflow from discontinued operations	812	30,145	3,491	—	4,303	30,145

34. DIVIDENDS

At the annual general meeting held on May 16, 2008, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended December 31, 2007 totaling approximately RMB2,732 million which has been reflected as a reduction of retained profits for the year ended December 31, 2008. As of December 31, 2008, such dividends have been paid by the Company, except for dividends payable of approximately RMB149 million due to Unicom BVI.

At a meeting held on March 31, 2009, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.20 per ordinary share to the shareholders for the year ended December 31, 2008 totaling approximately RMB4,754 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as of December 31, 2008, but will be reflected as an appropriation of retained profits in the financial statements for the year ending December 31, 2009.

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Proposed final dividend:		
RMB0.20 (2007: RMB0.20) per ordinary share by the Company	2,727	4,754
HKD nil (2007: HKD0.592) per ordinary share by China Netcom (Note a)	<u>3,700</u>	<u>—</u>
	<u>6,427</u>	<u>4,754</u>
Dividend paid:		
By the Company	2,285	2,732
By China Netcom (Note a)	<u>3,600</u>	<u>3,499</u>
	<u>5,885</u>	<u>6,231</u>

Note a : Since the 2008 Business Combination is accounted for as a business combination of entities under common control, accordingly, the proposed final dividend and dividend paid are restated to include China Netcom as if it had always been part of the Group.

35. EARNINGS PER SHARE

Earnings per share and ADS:

Basic earnings per share for the years ended December 31, 2007 and 2008 were computed by dividing the income attributable to equity holders by the weighted average number of ordinary shares outstanding during the years, as adjusted by the number of ordinary shares in issue had the merger with China Netcom been completed on January 1, 2007.

Diluted earnings per share for the years ended December 31, 2007 and 2008 were computed by dividing the income attributable to equity holders by the weighted average number of ordinary shares outstanding during the years, as adjusted by the number of ordinary shares in issue had the merger with China Netcom been completed on January 1, 2007, after adjusting for the effects of the dilutive potential ordinary shares. All potential ordinary shares arose from (i) share options granted under the amended Pre-Global Offering Share Option Scheme; (ii) share options granted under the amended Share Option Scheme; (iii) share options granted under the Special Purpose Share Option Scheme; and (iv) the Convertible Bonds (for the year ended December 31, 2007 only). The potential ordinary shares which are not dilutive mainly arose from share options granted under the amended Pre-Global Offering Share Option Scheme and are excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

	2007 (As restated)	2008
Numerator (in RMB millions):		
Income attributable to the equity holders of the Company		
- Continuing operations	20,158	6,340
- Discontinued operations	<u>1,279</u>	<u>27,572</u>
	<u>21,437</u>	<u>33,912</u>
Denominator (in millions):		
Weighted average number of ordinary shares outstanding and shares used in computing basic earnings per share	23,075	23,751
Dilutive equivalent shares arising from share options	<u>246</u>	<u>190</u>
Shares used in computing diluted earnings per share	<u>23,321</u>	<u>23,941</u>
Basic earnings per share (in RMB)		
- Continuing operations	0.87	0.27
- Discontinued operations	<u>0.06</u>	<u>1.16</u>
	<u>0.93</u>	<u>1.43</u>
Diluted earnings per share (in RMB)		
- Continuing operations	0.86	0.27
- Discontinued operations	<u>0.06</u>	<u>1.15</u>
	<u>0.92</u>	<u>1.42</u>

Basic and diluted earnings per ADS have been computed by multiplying the earnings per share by 10, which is the number of shares represented by each ADS.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, accounts receivable, amounts due from ultimate holding company, related parties and domestic carriers. Financial liabilities of the Group mainly include payables and accrued liabilities, short-term bank loans, short-term commercial paper, corporate bonds, long-term bank loans and amounts due to ultimate holding company, related parties and domestic carriers.

Cash and cash equivalents and short-term bank deposits denominated in foreign currencies, as summarized below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as of December 31, 2007 and 2008.

	2007 (As restated)			2008		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
- denominated in HK dollars	552	0.94	518	223	0.88	197
- denominated in US dollars	65	7.30	471	134	6.83	914
- denominated in EURO	3	10.67	28	4	9.66	43
- denominated in Japanese Yen	247	0.06	16	50	0.08	4
- denominated in GBP	—	14.58	4	2	9.88	20
Sub-total			<u>1,037</u>			<u>1,178</u>
Short-term bank deposits:						
- denominated in HK dollars	71	0.94	67	—	0.88	—
- denominated in US dollars	78	7.30	569	20	6.83	137
Sub-total			<u>636</u>			<u>137</u>
Total			<u>1,673</u>			<u>1,315</u>

The Group did not have and does not believe it will have any difficulties in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China. The carrying amounts of the Group's cash and cash equivalents, short-term bank deposits, other current financial assets and liabilities approximated their fair values as of December 31, 2007 and 2008 due to the nature or short maturity of those instruments.

The carrying amounts of receivables and payables which are all subject to normal trade credit terms approximated their fair value as of balance sheet date.

In connection with the fair value of the Group's non-current portion of long-term bank loans, please refer to Note 19 (b) for details.

37. RELATED PARTY TRANSACTIONS

Unicom Group and Netcom Group are state-owned enterprises directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-owned enterprises and their subsidiaries, in addition to Unicom Group and Netcom Group, directly or indirectly controlled by the PRC government are also considered to be related parties of the Group. Neither Unicom Group and Netcom Group nor the PRC government publishes financial statements available for public use.

The PRC government controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of other state-controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers.

Management considers other state-owned enterprises, including other telecommunications service operators, equipment vendors, construction vendors, lessors of assets and state-owned banks in the PRC, have material transactions with the Group in its ordinary course of business. These transactions are carried out on terms similar to those obtained by other state-owned parties and have been reflected in the financial statements.

The Group's telecommunications networks depend, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. Management believes that meaningful information relating to related party transactions has been adequately disclosed below.

37.1 Transactions with Unicom Group, Netcom Group and their subsidiaries

(a) Significant recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group, Netcom Group and their subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	2007 (As restated)	2008
Transactions with Unicom Group, Netcom Group and their subsidiaries:			
Continuing operations:			
Interconnection revenues	(ii), (iv)	723	808
Interconnection charges	(iii), (iv)	742	768
Rental income for premises and facilities	(i),(v)	19	18
Revenue for leasing of transmission line capacity	(i), (vi)	7	36
Charges for leasing of transmission line capacity	(i), (vii)	23	80
Charge for operator-based subscriber value-added services	(i), (viii)	259	297
Charge for customer services	(i), (ix)	683	713
Agency fee incurred for subscriber development services	(i),(x)	92	150
Charges for cellular subscriber value-added service	(i), (xi)	37	153
Rental charges for premises, equipment and facilities	(i), (xii)	31	35
Charges for the international gateway services	(i), (xiii)	15	7
Purchase of telecom cards	(i), (xiv)	618	549
Agency fee incurred for procurement of telecommunications equipment	(i), (xv)	18	20
Charge for engineering design and technical service	(i), (xvi)	117	287
Charge for engineering and information technology-related services	(xvii)	1,946	2,603
Common corporate services income	(xviii)	121	140
Charges for common corporate services	(xviii)	477	563
Rental income from properties	(xix)	1	10
Rental charges for premises	(xix)	636	642
Property sub-lease rental charges	(xix)	11	1
Purchases of materials	(xx)	668	512
Charges for ancillary telecommunications support services	(xxi)	448	558
Charges for support services	(xxii)	536	461
Charges for lease of telecommunications facility	(xxiii)	309	306
Income from information communication technologies services	(xxiv)	130	151

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Discontinued operations:			
Interconnection revenue	(ii), (iv)	26	17
Interconnection charges	(iii), (iv)	17	13
Charges for leasing of transmission line capacity	(i), (vii)	—	3
Charge for operator-based subscriber value-added services	(i), (viii)	119	89
Charge for customer services	(i), (ix)	178	111
Agency fee incurred for subscriber development services	(i), (x)	23	24
CDMA network capacity lease rental	(xxv)	8,382	6,009
Constructed capacity related cost of CDMA network	(xxvi)	215	234
Charges for cellular subscriber value-added service	(i), (xi)	17	46
Purchase of telecom cards	(i), (xiv)	79	40
Charge for engineering design and technical service	(i), (xvi)	1	3

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- (i) On October 26, 2006, CUCL entered into a new agreement “2006 Comprehensive Services Agreement” to continue to carry out related party transactions. The new agreement was approved by the independent shareholders of the Company on December 1, 2006, and became effective from January 1, 2007. Upon completion of the acquisition of Guizhou Business in 2007, the 2006 Comprehensive Services Agreement was amended where necessary so that the service area of CUCL was extended to include Guizhou province. In addition, the rights and obligations of Guizhou branch of Unicom Group under the framework agreement entered into with Guizhou branch of Unicom Huasheng for the procurement of CDMA mobile handsets on December 19, 2006 were assigned to and assumed by CUCL.

Pursuant to the ordinary resolution passed at the extraordinary general meeting held on September 16, 2008, the independent shareholders of the Company approved the 2006 Comprehensive Services Agreement be amended with effect from October 15, 2008 to include CNC China as a party (the “Second 2006 Comprehensive Services Agreement”).

Also, the independent shareholders of the Company approved the following agreements:

- Framework Agreement for Engineering and Information Technology Services dated August 12, 2008
 - Engineering and Information Technology Services Agreement 2008-2010
 - Domestic Interconnection Settlement Agreement 2008-2010
 - International Long Distance Voice Services Settlement Agreement 2008-2010
 - Framework Agreement for Interconnection Settlement dated August 12, 2008
- (ii) Interconnection revenues represent the amounts received or receivable from Unicom Group and Netcom Group for calls from their networks to the Group’s networks.
- (iii) Interconnection charges are for calls made from the Group’s networks to Unicom Group and Netcom Group’ networks.
- (iv) Pursuant to the Framework Agreement for Interconnection Settlement dated August 12, 2008 entered between CUCL and Netcom Group, CUCL and Netcom Group agreed to interconnect the network of Netcom Group on the one hand and that of CUCL on the other and settle charges in respect of domestic long distance voice services within their respective service regions and international long distance voice services.

Interconnection settlement between Unicom Group and Netcom Group’ networks and the Group’s network are based on standards established from time to time by the MIIT.

- (v) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, the Group agreed to provide premises to Unicom New Guoxin Telecommunications Corporation Limited (“Unicom New Guoxin”). The rental amount is based on the lower of depreciation costs and market price for similar premises in that locality.
- (vi) Pursuant to the agreement entered between the branches of CUCL and 21 Provinces in Southern China of Netcom Group, revenue for leasing of transmission line capacity is based on market rates.
- (vii) Pursuant to Framework Agreement for Telecommunications Facilities Leasing dated August 12, 2008 entered between CUCL and Netcom Group, the charges payable by CUCL are based on the annual depreciation charges of such transmission line capacity (not higher than market rates).
- (viii) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, the Group shall retain 40% of the actually received revenue generated from the value-added services provided by New Guoxin to the Group’s subscribers and allocate 60% of such revenue to New Guoxin. The settlement should be made among branches of the Group and New Guoxin respectively.
- (ix) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, New Guoxin provides business inquiries, tariff inquiries, account maintenance, complaints handling, and customer interview and subscriber retention services to the Group’s customers. The service fee payable by the Group shall be calculated on the basis of the customer service costs plus a profit margin, which shall not exceed 10%. The customer service costs were determined by the actual cost per operator seat and the number of effective operator seats. In addition, Guangdong has been added as one of the economically developed metropolises in determining the cost per operator seat.
- (x) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, New Guoxin provides subscriber development services to the Group through telephone or other channels by utilising its own network, equipment and operators. The agency fee chargeable to the Group does not exceed the average of agency fees chargeable by any independent third party agent in the same region.

- (xi) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, UNISK (Beijing) Information Technology Corporation Limited (“UNISK”) and Unicom NewSpace Corporation Limited (“Unicom NewSpace”) agreed to provide the cellular subscribers of CUCL with various types of value-added services through its cellular communication network and data platform. The Group retains a portion of the revenue generated from the value-added services provided to the Group’s subscribers (and actually received by the Group) and allocates a portion of such fees to UNISK and Unicom NewSpace for settlement, on the condition that such proportion allocated to UNISK and Unicom NewSpace does not exceed the average proportion allocated to independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. The percentage of revenue to be allocated to UNISK and Unicom NewSpace by the Group varies depending on the types of value-added service provided to the Group.
- (xii) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, CUCL and Unicom Group agreed to mutually lease premises, equipment and facilities from each other. Rentals are based on the lower of depreciation costs and market rates.
- (xiii) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, charges for international gateway services represent the amounts paid or payable to Unicom Group for international gateway services provided for the Group’s international long distance networks. The charge for this service is based on the cost of operation and maintenance of the international gateway facilities incurred by Unicom Group, including depreciation, together with a margin of 10% over cost.
- (xiv) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, the Group agreed to purchase telephone cards from Unicom Group (to be imported by Unicom Xingye Science and Technology Trade Company Limited (“Unicom Xingye”) at cost plus a margin to be agreed from time to time, but not to exceed 20%, and subject to appropriate volume discounts. Prices and volumes are subject to review by the parties on an annual basis.
- (xv) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, Unicom Import and Export Company Limited (“Unicom I/E Co”) agreed to provide equipment procurement services to the Group. Unicom I/E Co. charges the Group 0.55% (for contracts up to an amount of USD30 million (inclusive)) and 0.35% (for contracts with an amount of more than USD30 million) of the value of imported equipment, and 0.25% (for contracts up to an amount of RMB200 million (inclusive)) and 0.15% (for contracts with an amount of more than RMB200 million) of the value of domestic equipment for such services.
- (xvi) Pursuant to 2006 Comprehensive Services Agreement and the Second 2006 Comprehensive Services Agreement, China Information Technology Designing & Consulting Institute (“CITDCI”) agreed to provide engineering design and technical services to the Group based on its demands and requirements. The service fee standards for the engineering design and technical services are determined based on standards promulgated by the relevant government authorities. In addition, such prices should not be higher than those adopted by an independent third party providing similar services in the same industry.

- (xvii) Pursuant to Framework Agreement for Engineering and Information Technology Services dated August 12, 2008 entered between CUCL and Netcom Group and Engineering and Information Technology Services Agreement 2008-2010 entered between CNC China and Netcom Group, the charges payable by CUCL and CNC China for the above services are determined with reference to market rates and are settled when the relevant services are provided.
- (xviii) Pursuant to Master Sharing Agreement 2008-2010 entered between CNC China and Netcom Group, expenses associated with common corporate services is allocated between CNC China and Netcom Group based on total assets as appropriate.
- (xix) Pursuant to Property Leasing Agreement 2008-2010 entered between CNC China and Netcom Group and the Framework Agreement for Property Leasing dated August 12, 2008 entered between CUCL and Netcom Group, the charges payable by CNC China and CUCL are based on market rates or the depreciation charges and taxes (only not higher than the market rates) in respect of each property. The charges are subject to review every year.
- (xx) Pursuant to Materials Procurement Agreement 2008-2010 entered between CNC China and Netcom Group, the charges payable by CNC China to Netcom Group are based on market rates or cost-plus basis.
- (xxi) Pursuant to Ancillary Telecommunications Services Agreement 2008-2010 entered between CNC China and Netcom Group, and the Framework Agreement for Ancillary Telecommunications Services dated August 12, 2008 entered between CUCL and Netcom Group, Netcom Group agreed to provide services including certain telecommunications pre-sale, on-sale and after-sale services, certain sales agency services, the printing and delivery of invoice services, the maintenance of certain air-conditioning, fire alarm equipment and telephone booths and other customer services. The charges are based on market rates and settled as and when the relevant services are provided.
- (xxii) Pursuant to Support Services Agreement 2008-2010 entered between CNC China and Netcom Group and the Framework Agreement for Support Services dated August 12, 2008 entered between CUCL and Netcom Group, Netcom Group agreed to provide services including equipment leasing services, motor vehicles services, safety and security services, conference services, basic construction agency services, equipment maintenance services, employee training services, advertising services, printing services and other support services. The charges are based on market rates and settled as and when the relevant services are provided.
- (xxiii) Pursuant to Telecommunications Facilities Leasing Agreement 2008-2010 entered between CNC China and Netcom Group and the Framework Agreement for Telecommunications Facilities Leasing dated August 12, 2008 entered between CUCL and Netcom Group, CNC China agreed to lease the international telecommunications facilities and inter-provincial transmission optic fibers from Netcom Group. The lease payment is based on the depreciation charge of the leased assets.

- (xxiv) Pursuant to Information and Communications Technology Agreement 2008-2010 entered between System Integration Corporation and Netcom Group, System Integration Corporation, agreed to provide information communications technology services to Netcom Group and also to subcontract services ancillary to the provision of information communications technology services, namely, the system installation and configuration services, to the subsidiaries and branches of Netcom Group in Netcom Group's southern service region in the PRC. The charges payable by Netcom Group are based on market value.
- (xxv) On October 26, 2006, CUCL entered into the new agreement "2006 CDMA Lease Agreement" with Unicom Group and Unicom New Horizon to continue to carry out related party transactions. The new agreement was approved by the independent shareholders of the Company on December 1, 2006, and became effective from January 1, 2007. As disclosed in the announcement dated July 28, 2008, the Company, CUCL and China Telecom agreed on the CDMA Business disposal and the Company agreed to waive the CDMA network purchase option and terminate the 2006 CDMA Lease Agreement, in each case with effect from the completion of the CDMA Business disposal. During the Company's extraordinary general meeting of shareholders held on September 16, 2008, the Company's independent shareholders approved the waiver of the CDMA network purchase option and the termination of the 2006 CDMA Lease Agreement. Upon the completion of the CDMA Business disposal on October 1, 2008, the 2006 CDMA Lease Agreement was terminated.
- (xxvi) Pursuant to 2006 CDMA Lease Agreement, the constructed capacity related costs in connection with the CDMA network capacity used by the Group, including the rentals for the exchange centers and the base stations, water and electricity charges, heating charges and fuel charges for the relevant equipment etc., as well as the maintenance costs of a non-capital nature, are charged to the Group. The proportion of the constructed capacity related costs to be borne by the Group is calculated on a monthly basis by reference to the actual number of cumulative CDMA subscribers of the Group at the end of the month prior to the occurrence of the costs divided by 90%, as a percentage of the total capacity available on the CDMA network.
- (xxvii) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which is registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement between Unicom Group and the Group, the Group is granted the right to use these trademarks on a royalty free and renewal basis.

(b) Other significant transaction

In 2008, the Company completed the merger with China Netcom by way of a scheme of arrangement. For details, please refer to Note 1.

(c) Amounts due from and to Unicom Group, Netcom Group and their subsidiaries

As of December 31, 2007, an amount due to Netcom Group of RMB5,880 million represented the deferred payment arising from the Acquisition of New Horizon which was unsecured, interest bearing at 5.265% per annum with final maturity through June 30, 2010. In 2008, the Group fully repaid the amount. The deferred payment as of December 31, 2007 is analyzed as follows:

	<u>2007</u>	<u>2008</u>
Within one year	1,960	—
In the second year	1,960	—
In the third year	<u>1,960</u>	<u>—</u>
Total	<u>5,880</u>	<u>—</u>

In addition, the balance as of December 31, 2007 included the payables to related parties of approximately RMB2,249 million with interest rates ranging from 3.0% to 3.8% per annum, which was unsecured and repayable within 3 years. In 2008, the Group fully repaid the amount.

Apart from these, amounts due from and to Unicom Group, Netcom Group and their subsidiaries are unsecured, interest free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of the transactions with Unicom Group, Netcom Group and their subsidiaries as described in (a) above.

37.2 Domestic carriers

(a) Significant recurring transactions with domestic carriers

The following is a summary of significant transactions with domestic carriers in the ordinary course of business:

	<u>Note</u>	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Interconnection revenue	(i)	11,000	11,816
Interconnection charges	(i)	10,367	10,819
Leased line revenue	(ii)	539	500
Leased line charges	(ii)	350	269

(i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's networks and the network of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MIIT.

(ii) Leased line charges are paid or payable to domestic carriers by the Group for the provision of transmission lines. At the same time, the Group leases transmission lines to domestic carriers in return for leased line rental income. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.

(b) Disposal of the Group's CDMA business to China Telecom

In 2008, the Company completed the disposal of the CDMA Business to China Telecom. For details, please refer to Note 1 and Note 33.

Pursuant to the Disposal Agreement, the Group is committed to providing certain supporting services to China Telecom at no consideration during the transitional period. Such services include providing the use of certain telecommunications equipment, properties and information technology services in certain regions. The value of such services was estimated by the Group based on the costs of the underlying equipment or properties plus a margin. A portion of the consideration for the disposal of the CDMA Business equal to the estimated value of such services has been deferred and will be recognized over the expected service period.

In addition, pursuant to the Disposal Agreement, upon the completion of the CDMA Business disposal, CUCL and China Telecom would enter into agreements with respect to the swapping and operation of certain jointly used network assets in accordance with the terms set out in the Disposal Agreement. As of June 18, 2009, the negotiation of the agreements is in progress. Based on the latest negotiations, the Group estimated that the swapping and operation of these jointly used network assets would not have a significant impact on the consolidated financial statements.

As of December 31, 2008, the balances due from/to China Telecom in relation to the disposal of the CDMA Business were as follows:

Proceeds receivable	13,140
Advances from customers received on behalf of China Telecom	(768)
Cash to be transferred upon the final agreement of the values of assets and liabilities transferred to China Telecom in accordance with the Disposal Agreement	(3,464)

(c) Amounts due from and to domestic carriers

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Amounts due from domestic carriers		
- Receivables for interconnection revenue and leased line revenue	894	914
- Less: Provision for doubtful debts	<u>(78)</u>	<u>(49)</u>
	<u>816</u>	<u>865</u>
Amounts due to domestic carriers		
- Payables for interconnection charges and leased lines charges	<u>510</u>	<u>538</u>

All amounts due from and to domestic carriers are unsecured, interest-free and repayable within one year.

37.3 Other major state-owned financial institutions

(a) Transactions with other major state-owned financial institutions in the PRC

The following is a summary of significant transactions with other major state-owned financial institutions in the PRC in the ordinary course of business:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Finance income/costs, include:		
- Interest income	278	238
- Interest expense	2,250	2,008
Short-term bank loans received	63,125	50,614
Short-term commercial paper received	20,000	10,000
Long-term bank loans received	2,559	2,888
Issuance of corporate bonds	2,000	5,000
Short-term bank loans repaid	81,685	51,184
Short-term commercial paper repaid	10,000	20,000
Long-term bank loans repaid	9,583	20,524

(b) Amounts due from and to other major state-owned financial institutions in the PRC

The balances with other major state-owned financial institutions in the PRC in various line items of the consolidated balance sheet are listed as follows:

	<u>2007</u> <u>(As restated)</u>	<u>2008</u>
Current assets		
Short-term bank deposits	619	238
Cash and cash equivalents	11,484	8,672
Non-current liabilities		
Long-term bank loans	14,625	997
Corporate bonds	2,000	7,000
Current liabilities		
Short-term commercial paper	20,000	10,000
Current portion of long-term bank loans	7,411	1,216

38. CONTINGENCIES AND COMMITMENTS

38.1 Capital commitments

As of December 31, 2007 and 2008, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	<u>2007</u> <u>(As restated)</u> <u>Total</u>	<u>2008</u>		
		<u>Land and buildings</u>	<u>Equipment</u>	<u>Total</u>
Authorized and contracted for	3,802	1,162	4,914	6,076
Authorized but not contracted for	<u>2,508</u>	<u>846</u>	<u>6,092</u>	<u>6,938</u>
Total	<u>6,310</u>	<u>2,008</u>	<u>11,006</u>	<u>13,014</u>

As of December 31, 2008, approximately RMB159 million (2007: approximately RMB153 million) of capital commitment outstanding was denominated in US dollars, equivalent to approximately USD23 million (2007: approximately USD21 million). As of December 31, 2007, the capital commitments were mainly related to continuing operations.

38.2 Operating lease commitments

As of December 31, 2007 and 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2007 (As restated)	2008		
	<u>Total</u>	<u>Land and buildings</u>	<u>Equipment</u>	<u>Total</u>
Leases expiring:				
- no later than one year	9,096	1,438	390	1,828
- later than one year and no later than five years	3,287	3,876	695	4,571
- later than five years	<u>2,031</u>	<u>1,764</u>	<u>193</u>	<u>1,957</u>
Total	<u>14,414</u>	<u>7,078</u>	<u>1,278</u>	<u>8,356</u>

As of December 31, 2007, the operating lease commitments included the leasing fees for the CDMA network capacity based on the 2006 CDMA Lease Agreement of approximately RMB7,543 million relating to discontinued operations. During the Company's Extraordinary General Meeting of shareholders held on September 16, 2008, the Company's independent shareholders approved the termination of the 2006 CDMA Lease Agreement. Upon the completion of the CDMA Business disposal on October 1, 2008, the 2006 CDMA Lease Agreement was terminated (see Note 37.1(a) (xxv)).

38.3 Contingent liabilities

As aforementioned in Note 26, the tariffs for the services provided by the Group are subject to regulations by various government authorities. In 2008, the NDRC investigated the compliance with tariffs regulations of several branches of CUCL and CNC China. Based on management's assessment and preliminary discussions with MIIT and NDRC, management considered that the Group had complied with the regulations issued by the relevant government authorities for all periods covered by the investigation, and the likelihood of a cash outflow as a result of the investigation is remote. Accordingly, no contingent liabilities in relation to the investigation were recorded as of December 31, 2008.

39. EVENTS AFTER BALANCE SHEET DATE

(a) Acquisitions of certain assets and business from Unicom Group and Netcom Group

On December 16, 2008, CUCL agreed to acquire from Unicom Group and Netcom Group (i) the fixed-line business, but not the underlying property, plant and equipment, across the 21 provinces in Southern China and the local access telephone business and related assets in Tianjin Municipality operated by Netcom Group and Unicom Group and/or their respective subsidiaries and branches, (ii) the backbone transmission assets in Northern China owned by Netcom Group and/or its subsidiaries (“Target Assets”), (iii) a 100% equity interest in Unicom Xingye owned by Unicom Group, (iv) a 100% equity interest in CITDCI owned by Unicom Group; and (v) a 100% equity interest in New Guoxin owned by Unicom Group at a consideration of approximately RMB6.43 billion, subject to certain adjustments. The business and assets described in (i), (iii), (iv) and (v) above are hereinafter collectively referred to as the “Target Business” and the acquisition of the Target Business is referred to as “2009 Business Combination”.

The aforementioned acquisitions of assets and businesses were approved by the independent shareholders of the Company in an extraordinary general meeting held on January 14, 2009. As all of the conditions to the acquisitions were satisfied (or if applicable, waived), the 2009 Business Combination and the acquisitions of the Target Assets were completed on January 31, 2009.

(b) Leasing of telecommunications networks in Southern China from Unicom New Horizon

In connection with the 2009 Business Combination, on December 16, 2008, CUCL, Unicom Group, Netcom Group and Unicom New Horizon entered into an agreement (the “Network Lease Agreement”) in relation to the lease (the “Lease”) of the telecommunications networks of 21 provinces in Southern China by CUCL from Unicom New Horizon on an exclusive basis immediately following and subject to the completion of the 2009 Business Combination. Under the Network Lease Agreement, CUCL shall pay annual leasing fees of RMB 2.0 billion and RMB2.2 billion for the two financial years ending December 31, 2009 and December 31, 2010, respectively. The initial term of the Lease is two years effective from January 1, 2009 and the Lease is renewable at the option of CUCL with at least two months’ prior notice. Moreover, in connection with the Lease, Unicom New Horizon has granted to CUCL an option to purchase the telecommunications networks in Southern China.

(c) Granting of the license to operate 3G digital cellular business with WCDMA technology

On January 7, 2009, MIIT has granted approval for Unicom Group to license CUCL to operate 3G digital cellular business with WCDMA technology nationwide in China.

(d) Proposed dividend

After the balance sheet date, the Board of Directors proposed a final dividend for 2008. For details, see Note 34.

(e) The issuance of formal notice regarding the definition of PRC TRE

On April 22, 2009, the PRC State Administration of Taxation issued a formal notice regarding the determination of PRC TRE status and provided implementation guidance in withholding income tax for non-TRE enterprise shareholders. For details, please refer to Note 9(b).

40. COMPARATIVE FIGURES

As stated in Note 2.2, 2007 comparative figures have been restated to reflect the effects of the 2008 Business Combination under common control, which is accounted for using merger accounting in accordance with HKFRS. In addition, the results and cash flows of the CDMA business segment have been presented as discontinued operations and accordingly, the 2007 comparative figures of the consolidated statement of income and statement of cash flows had been reclassified in accordance with HKFRS. For comparative purposes, certain comparative figures have also been reclassified to conform with current year presentation to align the financial statements presentation of the Group and China Netcom and the effect of the change in accounting policies under HKFRS (Please refer to Note 2.2 for details).

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on June 18, 2009.

THE COMPANIES ORDINANCE (CHAPTER 32)
Company Limited by Shares
ARTICLES OF ASSOCIATION
(inclusive amendments up to 16 September 2008)
OF
CHINA UNICOM LIMITED
(中國聯通股份有限公司)
PRELIMINARY

1. The regulations in Table A in the First Schedule to the Ordinance shall not apply to the Company.

INTERPRETATION

2. (a) In these Articles save where the context otherwise requires:

associate in relation to any Director, has the meaning ascribed to it under the Listing Rules;

Auditors means the Auditors of the Company for the time being;

Chairman means the Chairman presiding at any meeting of members or the Board;

Company means the above-named Company;

Board and *Directors* means the directors for the time being of the Company or the Directors present at a duly convened meeting of directors at which a quorum is present;

call includes any instalment of a call and, in the application of provisions of these Articles to forfeiture of shares, a sum which, by the terms of issue of a share, is payable at a fixed time either in respect of the nominal value of the share or by way of premium;

capital means the share capital from time to time of the Company;

Clearing House shall mean a recognised clearing house within the meaning of Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

Dividend includes distributions in specie or in kind, capital distributions and capitalisation issues;

Dollars & \$ means dollars in the lawful currency of Hong Kong;

Hong Kong means the Hong Kong Special Administrative Region of the People's Republic of China;

Listing Rules means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

month means calendar month;

Office means the registered office of the Company for the time being;

paid up includes credited as paid up;

Ordinance means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), and includes every other ordinance incorporated therewith or substituted therefor, and in the case of any such substitution the references in these Articles to the provisions of the Ordinance shall be read as references to the provisions substituted therefor in the new ordinance;

Register means the register of members of the Company kept pursuant to the Ordinance and includes any branch register kept pursuant to the Ordinance;

Seal means the common seal of the Company or any official seal that the Company may have as permitted by the Ordinance;

Secretary means the person or persons appointed for the time being to perform for the Company the duties of a secretary;

share means a share in the capital of the Company and includes stock except where a distinction between stock and shares is expressed or implied;

Stock Exchange means The Stock Exchange of Hong Kong Limited;

these Articles means these Articles of Association in their present form or as altered from time to time;

in writing and **written** shall include printing, lithograph, xerography, photography or other modes of representing or reproducing words in a permanent visible form or, to the extent permitted by and in accordance with the Ordinance and any other applicable laws, rules and regulations, any visible substitute for writing (including a communication sent by electronic transmission in any form through any medium), or modes of representing or reproducing words partly in one visible form and partly in another visible form.

- (b) In these Articles, if not inconsistent with the subject or context, words importing the singular number only shall include the plural number and vice versa, words importing any gender shall include all other genders and references to persons shall include corporations (acting, where applicable, by their duly authorised representatives).
- (c) Subject as aforesaid, any words defined in the Ordinance shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.

- (d) The headings and any marginal notes are inserted for convenience only and shall not affect the construction of these Articles.

THE OFFICE

3. The Office shall be at such place in Hong Kong as the Directors shall from time to time appoint.

SHARES

4. Shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the Company and with a special, or without any right of voting. 6(1)
9
5. Without prejudice to any special rights, privileges or restrictions for the time being attached to any issued shares, any unissued or forfeited shares may be issued or re-issued upon such terms and conditions, and with such rights, privileges and restrictions attached thereto, whether in regard to dividends, voting, repayment or redemption of share capital, or otherwise, as the Company may, subject to the Ordinance, from time to time determine or, in the absence of any such determination, as the Directors shall determine.
6. The Board may, subject to the approval by the shareholders in general meeting, issue warrants to subscribe for any class of shares or securities of the Company on such terms as the Board may from time to time determine. Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.
7. Save as provided by contract or the Ordinance or these Articles to the contrary, all unissued shares shall be at the disposal of the Directors who may allot, grant options over or otherwise deal with or dispose of the same to such persons, at such times, for such consideration and generally upon such terms and conditions as they shall in their absolute discretion think fit, provided that no shares of any class shall be issued at a discount except in accordance with section 50 of the Ordinance. 2(2)
8. The Company may make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and the time of payment of such calls.
9. If by the conditions of allotment of any shares the whole or part of the issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the Company by the person who for the time being and from time to time shall be the registered holder of the shares, or his legal personal representative.
10. Subject to the provisions of section 49 of the Ordinance, any preference share may, with the sanction of a special resolution, be issued on the terms that it is, or at the option of the Company is liable, to be redeemed.
11. Subject to the provisions of these Articles, except as required by law or ordered by a court of competent jurisdiction, no person shall be recognised by the Company as holding any share upon any trust, and except as aforesaid, the Company shall not be bound by or required in any way to recognise any contingent, future, partial or

equitable interest in any share or in any fractional part of a share or any other right in respect of any share or any other claim to or in respect of any such share on the part of any person (even when having notice thereof) except an absolute right to the entirety thereof in the registered holder.

12. The Company may in connection with the issue of any shares exercise all powers of paying interest out of capital and of paying commission and brokerage conferred or permitted by the Ordinance.
13. No person shall become a member until his name shall have been entered into the Register. 1(1)
- 13A. Whenever any fractions arise as a result of an issue of shares by the Company, the Board may, on behalf of the members, deal with the fractional shares in such manner as it thinks fit. In particular, without limitation, the Board may sell the fractional share to which any members would otherwise become entitled to any person and may retain the net proceeds of sale for the benefit of the Company or distribute the net proceeds of sale in due proportion among those members so entitled. For this purpose, the Board may authorise any person to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer of the fractional shares to the purchaser thereof, who shall not be bound to see to the application of the purchase money.

JOINT HOLDERS OF SHARES

14. Where two or more persons are registered as the holders of any share they shall be deemed to hold the same as joint tenants with benefit of survivorship, subject to the following provisions: 1(3)
- (a) the Company shall not be bound to register more than four persons as the holders of any shares except in the case of the legal personal representatives of a deceased member;
 - (b) the joint holders of any shares shall be liable severally as well as jointly in respect of all payments which ought to be made in respect of such shares;
 - (c) on the death of any one of such joint holders the survivor or survivors shall be the only person or persons recognised by the Company as having any title to such shares, but the Directors may require such evidence of death as they may deem fit;
 - (d) any one of such joint holders may give effectual receipts for any dividend, bonus or return of capital payable to such joint holders; and
 - (e) the Company shall be at liberty to treat the person whose name stands first in the Register as one of the joint holders of any shares as solely entitled to delivery of the certificate relating to such shares, or to receive notices from the Company, or to attend or vote at general meetings of the Company, and any notice given to such person shall be deemed notice to all the joint holders; but any one of such joint holders may be appointed the proxy of the persons entitled to vote on behalf of such joint holders, and as such proxy to attend and vote at general meetings of the Company, but if more than one of such

joint holders be present at any meeting personally or by proxy that one so present whose name stands first in the Register in respect of such shares shall alone be entitled to vote in respect thereof.

SHARE CERTIFICATES

15. Every person whose name is entered as a member in the Register shall be entitled without payment to receive within two months after allotment or lodgment of an instrument of transfer duly stamped, or within such other period as the conditions of issue shall provide, one certificate for all his shares of any particular class, or if he shall so request, upon payment of a fee (not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit) for every certificate after the first, as the Directors shall from time to time determine, such number of certificates for shares in Stock Exchange board lots or multiples thereof as he shall request and one for the balance (if any) of the shares in question, provided that in the event of a member transferring part of the shares represented by a certificate in his name a new certificate in respect of the balance thereof shall be issued in his name without payment and, in the case of a share or shares held jointly by several persons the Company shall not be bound to issue a certificate or certificates to each such person, and the issue and delivery of a certificate or certificates to one of several joint holders shall be sufficient delivery to all such holders. 1(1)
16. Every share certificate shall be issued under the Seal (which for this purpose may be any official seal as permitted by section 73A of the Ordinance) and shall specify the number and class of shares and, if required, the distinctive numbers thereof, to which the certificate relates, and the amount paid up thereon and may otherwise be in such form as the Board may from time to time determine. If at any time the share capital of the Company is divided into different classes of shares, every share certificate issued at that time shall comply with section 57A of the Ordinance, and no certificate shall be issued in respect of more than one class of shares. 2(1)
17. Subject to section 71A of the Ordinance, if any share certificate shall be worn out, defaced, destroyed or lost, it may be replaced on payment of such fee, if any (not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit), on such evidence being produced as the Directors shall require, and in case of wearing out or defacement, on delivery up of the old certificate, and in case of destruction or loss, on the execution of such indemnity (if any), as the Directors may require. In case of destruction or loss, the person to whom such replacement certificate is given shall also bear and pay to the Company all expenses incidental to the investigation by the Company of the evidence of such destruction or loss and of the production of such indemnity.

CALLS ON SHARES

18. (a) The Directors may from time to time make calls upon the members in respect of all moneys unpaid on their shares whether on account of the nominal value of the shares or by way of premium but subject always to the terms of issue of such shares, and any such call may be made payable by instalments.

- (b) Each member shall, subject to receiving at least fourteen days' notice specifying the time or times and place of payment, pay to the Company the amount called on his shares and at the time or times and place so specified. The non-receipt of a notice of any call by, or the accidental omission to give notice of a call to, any of the members shall not invalidate the call.
19. A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed. A call may be revoked, varied or postponed as to all or any of the members liable therefor as the Directors may determine. A person on whom a call is made will remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made.
20. If any part of a call is not paid before or on the day appointed for payment thereof, the person from whom the payment is due shall be liable to pay all costs, charges and expenses that the Company may have incurred by reason of such non-payment together with interest on the outstanding part thereof at such rate as the Directors shall determine (not exceeding twenty per cent. per annum) from the day appointed for the payment of such call or instalment to the time of discharge thereof in full; but the Directors may, if they shall think fit, waive the payment of such costs, charges, expenses or interest or any part thereof.
21. If, by the terms of the issue of any shares or otherwise, any amount is made payable upon allotment or at any fixed time, whether on account of the nominal amount of the shares or by way of premium, every such amount shall be payable as if it were a call duly made and payable on the date on which by the terms of issue the same becomes payable; and all the provisions hereof with respect to the payment of calls and interest thereon, or to the forfeiture of shares for non-payment of calls shall apply to every such amount and the shares in respect of which it is payable in the case of non-payment thereof.
22. The Directors may, if they shall think fit, receive from any member willing to advance the same (either in money or money's worth) all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him; and upon all or any of the moneys so paid in advance the Directors may (until the same would, but for such payment in advance, become presently payable) pay interest at such rate as may be agreed upon between the member paying the moneys in advance and the Directors (not exceeding twenty per cent. per annum). But a payment in advance of a call shall not entitle the shareholder to receive any dividend or to exercise any other rights or privileges as a shareholder in respect of the share or the due portion of the shares upon which payment has been advanced by such shareholder before it is called. The Directors may also at any time repay the amount so advanced upon giving to such member one month's notice in writing unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. 3(1)
23. On the trial or hearing of any action for the recovery of any money due for any call, it shall be sufficient to prove that the name of the member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such money is due; that the resolution making the call is duly recorded in the minute book of the Company; and that notice of such call was duly given to the member sued in pursuance of these Articles, and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matter whatsoever,

but the proof of the matters aforesaid shall be conclusive evidence that the money is due.

24. No member shall, unless the Directors otherwise determine, be entitled to receive any dividend or bonus, or to receive notice of or to be present or vote at any general meeting, either personally or (save as proxy for another member) by proxy, or to exercise any privileges as a member, or be reckoned in a quorum, until he shall have paid all calls or other sums for the time being due and payable on every share held by him, whether alone or jointly with any other person, together with interest and expenses (if any).

FORFEITURE

25. If any member fails to pay in full any call or any instalment of a call on the day appointed for payment thereof, the Directors may at any time thereafter, during such time as any part of the call remains unpaid without prejudice to the provisions of Article 24, serve a notice on him requiring him to pay so much of the call as is unpaid together with interest accrued and any expenses incurred by reason of such non-payment.
26. The notice shall name a further day (not being less than fourteen days from the date of the notice) on or before which such call or part thereof and all interest accrued and expenses incurred by reason of such non-payment are to be paid, and it shall also name the place where payment is to be made, such place being either the Office, or some other place at which calls of the Company are usually made payable. The notice shall also state that, in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call is payable will be liable to forfeiture.
27. If the requirements with regard to payment of any such notice as aforesaid be not complied with, any shares in respect of which such notice has been given may, at any time thereafter and before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect, and any such forfeiture shall extend to all dividends and bonuses declared in respect of the shares so forfeited but not payable until after such forfeiture. The Directors may accept surrender of any shares liable to be forfeited hereunder and in such cases references in the Articles to forfeiture shall include surrender.
28. Any shares so forfeited shall be deemed for the purposes of this Article to be the property of the Company and may be sold, re-allotted or otherwise disposed of either subject to or discharged from all calls made prior to the forfeiture, to any person, upon such terms as to subscription price and otherwise and in such manner and at such time or times as the Directors think fit. For the purpose of giving effect to any such sale or other disposition the Directors may authorise the transfer of the shares so sold or otherwise disposed of to the purchaser thereof or any other person becoming entitled thereto. The Directors shall account to the person whose shares have been forfeited with the balance (if any) of monies received by the Company in respect of those shares after deduction of expenses of forfeiture, sale or disposal of the shares and any amount due to the Company in respect of the shares.
29. The Directors may, at any time before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, annul the forfeiture thereof upon such conditions as they think fit or permit the share forfeited to be redeemed upon the

terms of payment of all calls and interest due thereon and all expenses incurred in respect of the share, and upon such further terms (if any) it thinks fit.

30. Any person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall notwithstanding the forfeiture be and remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with interest thereon from the date of forfeiture until payment at such rate as the Directors may prescribe (not exceeding twenty per cent. per annum), and the Directors may enforce the payment of such moneys or any part thereof and without any deduction or allowance for the value of the shares at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.
31. When any shares have been forfeited, notice of the resolution shall be given to the member in whose name it stood immediately prior to the forfeiture and an entry shall be made in the Register recording the forfeiture and the date thereof but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry, and so soon as the shares so forfeited have been sold or otherwise disposed of an entry shall also be made of the manner and date of the sale or disposal thereof.

LIEN

32. The Company shall have a first and paramount lien on every share (not being a fully paid-up share) for all moneys outstanding in respect of such share whether presently payable or not, and the Company shall also have a first and paramount lien on every share (other than fully paid-up shares) standing registered in the name of a member, whether singly or jointly with any other person or persons, for all the debts and liabilities of such member or his estate to the Company, whether the same shall have been incurred before or after notice has been given to the Company of any interest of any person other than such member, and whether the time for the payment or discharge of the same shall have already arrived or not, and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person, whether a member or not. The Company's lien on a share shall extend to all dividends payable thereon. The Directors may at any time either generally or in any particular case waive any lien that has arisen, or declare any share to be wholly or in part exempt from the provisions of this Article. 1(2)
33. The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable or the liability or engagement in respect of such lien exists is liable to be presently fulfilled or discharged, nor until the expiration of fourteen days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default shall have been given to the holder for the time being of the share or the person entitled

thereto by reason of his death, bankruptcy or winding-up or otherwise by operation of law or court order.

34. The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debts or liabilities in respect whereof the lien exists so far as the same are presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale. For giving effect to any such sale the Directors may authorise some person to transfer the shares so sold to the purchaser thereof and may enter the purchaser's name in the Register as holder of the shares, and the purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
35. A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly forfeited or surrendered or sold on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. Such declaration and the receipt of the Company for the consideration (if any) given for the share on the sale, re-allocation or disposal thereof together with the share certificate delivered to a purchaser or allottee thereof shall (subject to the execution of a transfer if the same be required) constitute a good title to the share and the person to whom the share is sold, re-allotted or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, surrender, sale, re-allotment or disposal of the share.

TRANSFER OF SHARES

36. The instrument of transfer of any shares in the Company shall be in writing in the usual common form or in such other form as the Board may accept and may be under hand only or, if the transferor or transferee is a Clearing House (or its nominee), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.
37. Every instrument of transfer shall be lodged at the Office for registration (or at such other place the Board may appoint for such purpose) accompanied by the certificate relating to the shares to be transferred and such other evidence as the Directors may require in relation thereto. All instruments of transfer which shall be registered shall be retained by the Company, but save where fraud is suspected any instrument of transfer which the Directors may decline to register shall, on demand, be returned to the person depositing the same. **1(1)**
38. There shall be paid to the Company in respect of the registration of a transfer and of any Grant of Probate or Letters of Administration, Certificate of Marriage or Death, Power of Attorney or other document relating to or affecting the title to any share or for making of any entry in the Register affecting the title to any share such fee (if any) as the Directors may from time to time require or prescribe (but not exceeding HK\$2.50 or such greater sum as the Stock Exchange may from time to time permit). **1(1)**

39. The registration of transfers may be suspended at such times and for such periods as the Directors may, in accordance with section 99 of the Ordinance, from time to time determine and either generally or in respect of any class of shares. 1(2)
40. The Directors may, subject to section 69 of the Ordinance, at any time in their absolute discretion and without assigning any reason therefor decline to register any transfer of any share (not being a fully paid-up share). If the Directors refuse to register a transfer they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.
41. The Directors may also decline to register any transfer unless:
- (a) the instrument of transfer is in respect of only one class of share;
 - (b) in the case of a transfer to joint holders, the number of transferees does not exceed four; 1(3)
 - (c) the shares concerned are free of any lien in favour of the Company;
 - (d) the instrument of transfer is properly stamped;
 - (e) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied;
 - (f) a fee not exceeding the maximum fee prescribed or permitted from time to time by the Stock Exchange is paid to the Company in respect thereof; 1(1)
 - (g) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.
42. No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

TRANSMISSION OF SHARES

43. In the case of the death of a member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole or only surviving holder, shall be the only persons recognised by the Company as having any title to his shares; but nothing herein contained shall release the estate of a deceased holder, whether sole or joint, from any liability in respect of any share solely or jointly held by him.
44. Any person becoming entitled to shares in the Company in consequence of the death, bankruptcy or winding-up of any member or otherwise by operation of law or by court order shall, upon procuring such evidence of his title as the Directors may require, have the right either to be registered himself as the holder of the shares upon giving to the Company notice in writing of such his desire or to transfer such shares to some other person. All the limitations, restrictions and provisions of these Articles and the Ordinance relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as if the same

were a transfer of shares by a member, including the Directors' right to refuse or suspend registration.

45. A person becoming entitled to shares in the Company in consequence of the death, bankruptcy or winding-up of any member or otherwise by operation of law or by court order shall have the right to receive and give a discharge for any dividends or other moneys payable in respect of the shares, provided always that the Directors may at any time give notice requiring any such person to elect to be registered himself or to transfer the shares, and if the notice is not complied with within sixty days, the Directors may thereafter withhold payment of all dividends or other moneys payable in respect of the shares until the requirements of the notice have been complied with but subject to the requirements of Article 76 being met, such a person may vote at meetings.

STOCK

46. The Company may from time to time by ordinary resolution convert any fully paid-up shares into stock and may reconvert any stock into fully paid-up shares of any denomination. After the passing of any resolution converting all the fully paid-up shares of any class in the capital of the Company into stock, any shares of that class which subsequently become fully paid-up and rank pari passu in all other respects with such shares shall, by virtue of this Article and such resolution, be converted into stock transferable in the same units as the shares already converted.
47. The holders of stock may transfer the same or any part thereof in the same manner and subject to the same regulations as the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit. The Directors may from time to time fix the minimum amount of stock transferable and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not, without the sanction of an ordinary resolution of the Company, exceed the nominal amount of each of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock.
48. The holders of stock shall, according to the amount of the stock held by them, have the same rights as regards dividends, participation in assets on a winding-up, voting at general meetings of the Company and other matters as if they held the shares from which the stock arose, but no such right (except as to participation in dividends, profits and in assets on a reduction of capital or a winding-up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred such right.
49. Such of these Articles as are applicable to fully paid-up shares shall apply mutatis mutandis to stock, and the words "share" and "shareholder" shall include "stock" and "stockholder".

INCREASE OF CAPITAL AND PURCHASE OF OWN SHARES

50. The Company may, from time to time, by ordinary resolution increase its authorised capital by such sum divided into shares of such amounts as the resolution shall prescribe.

51. The general meeting resolving upon the creation of any new shares may direct that the same or any of them shall be offered in the first instance, and either at par or at a premium or (subject to the provisions of the Ordinance) at a discount, to all the holders for the time being of any class of shares in the capital of the Company, in proportion to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment of the new shares, and in default of any such direction, or so far as the same shall not extend, the new shares shall be at the disposal of the Directors, and Article 7 shall apply thereto. The Company may exercise any powers conferred or permitted by the Ordinance or any other ordinance from time to time to purchase or otherwise acquire its own shares and warrants (including any redeemable shares) at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company and should the Company purchase or otherwise acquire its own shares or warrants neither the Company nor the Board shall be required to select the shares or warrants to be purchased or otherwise acquired ratably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that (a) purchases not made through the market or by tender shall be limited to a maximum price, and (b) if purchases are by tender, tenders shall be available to all shareholders alike and provided further that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange or the Securities and Futures Commission from time to time in force.
52. Subject to any direction or determination that may be given or made in accordance with the powers contained in these Articles, all new shares created pursuant to Article 50 shall be subject to the same provisions herein contained with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as the existing shares of the Company.

8(1)
8(2)

ALTERATIONS OF SHARE CAPITAL

53. The Company may by ordinary resolution:
- (a) subdivide its existing shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association of the Company, provided that in the subdivision of an existing share the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived, and so that the resolution whereby any share is subdivided may determine that as between the holders of the shares resulting from such subdivision one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares;
 - (b) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
 - (c) consolidate and divide its capital or any part thereof into shares of larger amount than its existing shares;

- (d) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its authorised capital by the amount of the shares so cancelled; or
 - (e) make provision for the issue and allotment of shares which do not carry any voting rights.
54. The Company may by special resolution reduce its share capital and any capital redemption reserve fund or any share premium account in any manner allowed by law.
55. Where any difficulty arises in regard to any consolidation and division under paragraph (c) of Article 53, the Directors may settle the same as they think expedient and in particular may arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale in due proportion amongst the members who would have been entitled to the fractions, and for this purpose the Directors may authorise some person to transfer the shares representing fractions to the purchaser thereof, who shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

MODIFICATION OF RIGHTS

56. All or any of the special rights attached to any class or shares (unless otherwise provided for by the terms of issue of the shares of that class) for the time being in issue may subject to the provisions of the Ordinance, at any time, as well before as during liquidation, be altered or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class, and all the provisions contained in these Articles relating to general meetings shall mutatis mutandis apply to every such meeting but so that the quorum thereof shall be not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of the class, and that any holder of shares of that class present in person or by proxy may demand a poll. 6(1)
6(2)
57. The provisions of the foregoing Article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the rights whereof are to be varied.
58. The special rights concurred upon the holders of the shares or class of shares shall not unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking pari passu therewith.

GENERAL MEETINGS

59. The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The annual general meeting shall be held at such time (within a period of not more than fifteen months, or such longer period as the Registrar of Companies may authorise in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the Directors. All other general meetings shall be called extraordinary general meetings.

60. The Directors may wherever they think fit, and shall on requisition in accordance with the Ordinance, proceed to convene an extraordinary general meeting.

NOTICE OF GENERAL MEETINGS

61. Subject to section 116C of the Ordinance, an annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than twenty-one days' notice in writing, and any other general meeting shall be called by not less than fourteen days' notice in writing. The notice shall specify the place, date and time of meeting, and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. There shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a member of the Company.
62. Notwithstanding that a meeting of the Company is called by shorter notice than that specified in these Articles or required by the Ordinance, it shall be deemed to have been duly called if it is so agreed:
- (a) in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and
 - (b) in the case of any other meeting, by a majority in number of the members having the right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.
63. The accidental omission to give notice of a meeting or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send such instrument of proxy to, or the non-receipt of notice of a meeting or such instrument of proxy by, any person entitled to receive such notice shall not invalidate the proceedings at that meeting.

PROCEEDINGS AT GENERAL MEETINGS

64. All business shall be deemed special that is transacted at an extraordinary general meeting and at an annual general meeting with the exception of:
- (a) the receipt of the accounts and balance sheet and the reports of the Directors and other documents required to be annexed to the accounts;
 - (b) the declaration and sanction of dividends;
 - (c) the election of Directors in place of those retiring (if any);
 - (d) the election or re-election of the Auditors of the Company; and
 - (e) the fixing of, or the determination of the method of fixing, the remuneration or extra remuneration of the Directors and of the Auditors of the Company.

65. No business save the election of a chairman of the meeting shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.
66. If, within thirty minutes from the time appointed for the meeting a quorum be not present, the meeting, if convened upon requisition in accordance with the Ordinance, shall be dissolved; but in any other case it shall stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the Chairman of the meeting may determine. If at such adjourned meeting a quorum be not present within thirty minutes from the time appointed for the meeting, the member or members present in person or by proxy shall be a quorum and may transact the business for which the meeting is called.
67. The Chairman (if any) of the Board or, in his absence, a Deputy Chairman (if any) shall preside as Chairman at every general meeting. If there is no such Chairman or Deputy Chairman, or if at any meeting neither the Chairman nor a Deputy Chairman is present within fifteen minutes after the time appointed for holding the meeting, or if neither of them is willing to act as Chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as Chairman if willing to act. If no Director is present, or if each of the Directors present declines to act as Chairman, the persons present and entitled to vote shall elect one of their number to be Chairman of the meeting.
68. The Chairman of any general meeting at which a quorum is present may, with the consent of the meeting, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place or sine die; but no business shall be transacted at any adjourned meeting other than business which might have been transacted at the meeting from which the adjournment took place unless due notice thereof is given or such notice is waived in the manner prescribed by these Articles. When a meeting is adjourned for thirty days or more, or sine die, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjourned meeting or the business to be transacted thereat. Where a meeting is adjourned sine die the time and place for the adjourned meeting shall be fixed by the Directors.

VOTING

69. (a) At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:
 - (i) the Chairman of the meeting; or
 - (ii) at least three members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or

- (iii) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
 - (iv) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.
- (b) Unless a poll is so demanded and the demand is not withdrawn, a declaration by the Chairman that a resolution has, on a show of hands, been carried unanimously or by a particular majority or lost shall be final and conclusive, and an entry to that effect in the minute book of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.
70. A demand for a poll may be withdrawn only with the approval of the Chairman of the meeting, at any time before the close of the meeting or the taking of the poll, whichever is earlier. If a poll be directed or demanded in the manner (including the use of ballot or voting papers or tickets) above mentioned it shall (subject to the provisions of Article 72 hereof) be taken at such time (being not later than thirty days after the date of the demand) and in such manner as the Chairman of the meeting may appoint. No notice need be given of a poll not taken immediately. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.
71. In the case of an equality of votes at any general meeting, whether upon a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.
72. A poll demanded upon the election of a Chairman or upon a question of adjournment shall be taken forthwith. Any business, other than that upon which a poll has been demanded, may be proceeded with pending the taking of the poll.
73. (a) Save as expressly provided in these Articles, no person other than a member duly registered and who shall have paid everything for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member) either personally or by proxy, or to be reckoned in a quorum at any general meeting.
- (b) No objection shall be made to the validity of any vote except at a meeting at which such vote shall be tendered and every vote whether given personally or by proxy not disallowed at such meeting shall be deemed valid for all purposes whatsoever of such meeting or poll.
- (c) In case of any dispute as to voting the Chairman shall determine the same, and such determination shall be final and conclusive.

74. Subject to the provisions of the Ordinance, a resolution in writing signed by all the members for the time being entitled to receive notice of and to attend and vote at general meetings shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held. A written notice of confirmation of such resolution in writing signed by or on behalf of a member shall be deemed to be his signature to such resolution in writing for the purposes of this Article. Such resolution in writing may consist of several documents each signed by or on behalf of one or more members.

VOTES OF MEMBERS

75. Subject to Article 85 and to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under section 115 of the Ordinance at any general meeting shall be entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder.
76. Any person entitled under Article 45 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that at least 48 hours before the time of the holding of the meeting or adjourned meeting (as the case may be) at which he proposes to vote, he shall satisfy the Board of his right to be registered as the holder of such shares or the Board shall have previously admitted his right to vote at such meeting in respect thereof.
77. On a poll, votes may be given either personally or by proxy and a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
78. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, curator bonis or other person in the nature of a committee or curator bonis appointed by that court, and such committee, curator bonis or other person may on a poll, vote by proxy. If any member be a minor he may vote by his guardian or one of his guardians who may give their votes personally or by proxy.
- 78A. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

PROXIES

79. (a) A proxy need not be a member of the Company.

11(1)

- (b) An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may accept, and shall be deemed, subject to the proviso hereinafter contained, to confer authority upon the proxy to vote on any resolution (or amendment thereto) put to the meeting for which it is given as the proxy thinks fit.

Provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which special business (determined as provided in Article 64) is to be transacted shall be such as to enable the member according to his intention to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such special business and shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

80. The instrument appointing a proxy shall be signed by the appointor, or his duly authorised attorney, or if such appointor be a corporation, under its common seal or signed by some officer, attorney or other person duly authorised in that behalf. 11(2)
81. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be deposited at the Office at least forty-eight hours before the time fixed for holding the meeting at which the person named in such instrument proposes to attend and vote or, in the case of a poll, at least thirty-six hours before the time appointed for the taking of the poll; otherwise the person so named shall not be entitled to vote at that meeting (or as the case may be) except with the approval of the Chairman of the meeting. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
82. Any member may by power of attorney appoint any person to be his attorney for the purpose of attending and voting at any meeting, and such power may be a special power limited to any particular meeting or a general power extending to all meetings at which such member is entitled to vote. Every such power shall be deposited at the Office at least thirty-six hours before the time fixed for holding the meeting at which such attorney proposes to attend and vote or, in the case of a poll, at least twenty-four hours before the time appointed for the taking of the poll; otherwise the attorney shall not be entitled to vote at that meeting (or as the case may be) except with the approval of the Chairman of the meeting.
83. (a) An instrument of proxy may be revoked by forwarding to the Office written notification of such revocation signed by or on behalf of the person who issued or authorised the issue of the instrument of proxy.
- (b) A vote given in accordance with the terms of an instrument of proxy or power of attorney or by the duly authorised representative of a corporation shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the proxy or power of attorney or other authority, or transfer of the shares in respect of which the proxy is given, provided no intimation in writing of the death, insanity, revocation or transfer shall have been received

at the Office twenty-four hours at least before the time fixed for holding the meeting, or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.

84. Any corporation which is a member of the Company may, by resolution of its Directors or other governing body or by power of attorney, authorise such persons as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company. References in these Articles to a member present in person at a meeting shall, unless the context otherwise requires, include a corporation which is a member represented at the meeting by such duly authorised representative.
85. Without prejudice to the generality of Article 84 if a Clearing House (or its nominee) is a member of the Company, it (or, as the case may be, its nominee) may authorise such person or persons as it thinks fit to act as its proxy and proxies or representative or representatives at any meeting of the Company or at any meeting of any class of member of the Company provided that, if more than one person is so authorised, the proxy form or authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised under the provisions of this Article shall be entitled to exercise the same powers on behalf of the Clearing House (or its nominee) which he represents as that Clearing House (or its nominee) could exercise if it were an individual member of the Company and, on a show of hands, each such person shall be entitled to a separate vote.

DIRECTORS

86. Unless and until otherwise determined by an ordinary resolution of the Company, the Directors shall be not fewer than two in number, and there shall be no maximum number of Directors.
87. The Company shall keep in accordance with the Ordinance a register containing the names and addresses and occupations of its Directors and shall from time to time notify to the Registrar of Companies any change that takes place in such Directors as required by the Ordinance.
88. A Director need not hold any shares in the Company. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at general meetings.

DIRECTORS' REMUNERATION

- 89 (a) The Directors shall be entitled to receive by way of remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by resolution by which it is voted) is to be divided amongst the Directors in such proportions and in such manner as the Board may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company in the case of sums paid in respect of directors' fees.

- (b) The Directors shall also be entitled to be repaid their reasonable travelling, hotel and other expenses incurred by them in or about the performance of their duties as Directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or on the discharge of their duties as directors.
90. The Directors may award special remuneration out of the funds of the Company (by way of salary, commission or otherwise as the Directors may determine) to any Director who performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

POWERS OF DIRECTORS

91. The Directors may establish any local boards or agencies for managing any of the affairs of the Company, either in Hong Kong or elsewhere, and may appoint any persons to be members of such local boards, or any managers or agents for the Company, and may fix their remuneration, and may delegate (with or without power to sub-delegate as the Directors shall determine) to any local board, manager or agent any of the powers, authorities and discretions vested in the Directors, and may authorise the members of any local boards, or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and such appointment or delegation may be made upon such terms and subject to such conditions as the Directors may think fit, and the Directors may remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
92. The Directors may from time to time and at any time by power of attorney or other instrument appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney or other instrument may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. The Company may, by writing under its seal, empower any person, either generally or in respect of any specified matter, as its attorney to execute deeds and instruments on its behalf and to enter into contracts and sign the same on its behalf and every deed signed by such attorney on behalf of the Company and under his seal shall bind the Company and have the same effect as if it were under the seal of the Company.
93. Subject to and to the extent permitted by the Ordinance, the Company or the Directors on behalf of the Company, may cause to be kept in any territory a Branch Register of members resident in such territory, and the Directors may make and vary

such regulations as they may think fit respecting the keeping of any such Branch Register.

94. All cheques, promissory notes, drafts, bills of exchange, and other negotiable or transferable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine. The Company's bank accounts shall be kept with such banker or bankers as the Board shall from time to time determine.
95. (a) The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Debentures, debenture stocks, bonds and other securities of the Company may be made assignable free from any equities between the Company and the person to which the same may be issued, and may be issued at a discount, premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.
(b) The Directors shall cause a proper register to be kept, in accordance with the provisions of the Ordinance, of all mortgages and charges affecting the property of the Company and shall duly comply with the requirements of the Ordinance in regard to the registration of mortgages and charges therein specified and otherwise. Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the members or otherwise, to obtain priority over such prior charge.
96. The Board may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the wives, widows, families and dependants of any such persons. The Board may also establish and subsidise or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well being of the Company or of any such other company as aforesaid or of any such persons as aforesaid, and may make payments for or towards the insurance of any such persons as aforesaid, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. The Board may do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid. Any Director holding any such employment or office shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

APPOINTMENT AND REMOVAL OF DIRECTORS

97. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Chief Executive Officer. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless during a period of not less than seven (7) days commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven (7) days before the date appointed for the meeting there shall have been lodged at the Office or at the head office of the Company a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected. 4(4)
4(5)
98. If at any general meeting at which an election of Directors ought to take place the places of the retiring Directors are not filled, the retiring Directors or such of them as have not had their places filled shall be deemed to have been re-elected and shall, if willing, continue in office until the next annual general meeting and so on from year to year until their places are filled, unless:
- (i) it shall be determined at such meeting to reduce the number of Directors;
 - (ii) it is expressly resolved at such meeting not to fill such vacated offices;
 - (iii) in any such case the resolution for re-election of a Director is put to the meeting and lost; or
 - (iv) such Director has given notice in writing to the Company that he is not willing to be re-elected.
99. The Company may, from time to time, by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board. 4(2)
100. The Company may by ordinary resolution remove any Director notwithstanding anything in these Articles or in any agreement between him and the Company (but without prejudice to any right to damages for termination of such agreement not in accordance with the terms thereof), and may, if thought fit, by ordinary resolution appoint another person in his stead. Any person so elected shall hold office for such time only as the Director in whose place he is elected would have held the same if he had not been removed. 4(3)
101. The Directors shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time (if any) by the shareholders in general meeting and any directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then 4(2)

be eligible for re-election, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

102. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as the number of Directors is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose. If there shall be no Directors able or willing to act, then any two members may summon a general meeting for the purpose of appointing Directors.
103. No person other than a retiring Director shall, unless recommended by the Board for re-election, be eligible for election to the office of Director at any annual general meeting unless notice in writing for the intention to propose that person for election as a Director and notice in writing by that person of his consent to be elected, shall have been lodged at the Office or head office of the Company at least seven days before the date of the annual general meeting.

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ALTERNATE DIRECTORS

104. Each Director may by written notification to the Company nominate any other person to act as alternate Director in his place and at his discretion in similar manner remove such alternate Director. If such person is not another Director, such appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved. The alternate Director shall (except as regards the power to appoint an alternate) be subject in all respects to the terms and conditions existing with reference to the other Directors of the Company; and each alternate Director, whilst acting as such, shall exercise and discharge all the functions, powers and duties of the Director he represents, but shall look to such Director solely for his remuneration as alternate Director. Every person acting as an alternate Director shall (except when absent from Hong Kong) be entitled to receive notices of meetings of the Board and shall have one vote for each Director for whom he acts as alternate at any such meeting at which the Director appointing him is not personally present (in addition to his own vote if he is also a Director). The signature of an alternate Director to any resolution in writing of the Board or a committee of the Board shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor. Any person appointed as an alternate Director shall vacate his office as such alternate Director if and when the Director by whom he has been appointed removes him or vacates office as Director. Every person acting as an alternate Director shall be deemed to be the agent of and for the Director appointing him and shall, without prejudice to any liability which he may cause to his appointor under the Ordinance or otherwise, be responsible to the Company for his own acts and defaults. To such extent as the Board may from time to time determine in relation to any committee of the Board, the foregoing provisions of this paragraph shall also apply mutatis mutandis to any meeting of any committee of which his appointor is a member. An alternate Director shall not, save as aforesaid, have power to act as a Director nor shall he be deemed to be a Director for the purposes of these Articles.

DISQUALIFICATION OF DIRECTORS

105. The office of a Director shall ipso facto be vacated:

- (a) if he becomes prohibited by law or court order from being a Director;
- (b) if a receiving order is made against him or he makes any arrangement or composition with his creditors;
- (c) if he becomes of unsound mind;
- (d) if he absents himself from the meetings of the Board during a continuous period of six months, without special leave of absence from the Board, and his alternate Director (if any) shall not during such period have attended in his stead, and the Board passes a resolution that he has by reason of such absence vacated his office;
- (e) if he shall be removed from office by notice in writing served upon him signed by all his co-directors;
- (f) if he resigns his office;
- (g) if he is removed by an ordinary resolution of the Company; or
- (h) if he is convicted of an indictable offence.

DIRECTORS' INTERESTS

106. If a Director or any of his associates is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, the Director shall declare the nature of his interest or the interest of any of his associates at the earliest meeting of the Board at which it is practicable for him so to do notwithstanding that the question of entering into the contract, transaction or arrangement is not taken into consideration at that meeting. A general notice given to the Board by a Director stating that, by reason of facts specified in the notice, he or any of his associates is to be regarded as interested in a contract, transaction or arrangement of any description which may subsequently be made by the Company, that notice shall be a sufficient declaration of his interest or the interest of such of his associates, so far as attributable to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company; but no such general notice shall have effect in relation to any contract, transaction or arrangement unless it is given before the date on which the question of entering into the contract, transaction or arrangement is first taken into consideration on behalf of the Company. Without prejudice to the generality of the foregoing, a Director shall give notice to the Company of such matters relating to himself as may be necessary for the purposes of sections 155B, 158, 161 and 161B of the Ordinance.
107. A Director may hold any other office or place of profit under the Company (other than the office of Auditor), and he or any firm of which he is a member may act in a professional capacity for the Company in conjunction with his office of Director, for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article. No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any contract or arrangement entered into by or on behalf of the

Company with any Director or any firm or company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit, remuneration or other benefits realised by any such contract or arrangement by reason only of such Director holding that office or of any fiduciary relationship thereby established, provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested.

108. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or proposal in which he or any of his associates is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters, namely:
- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or any of his associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
 - (v) any proposal concerning any other company in which the Director or any of his associates is interested only, whether directly or indirectly, as an officer or a shareholder or in which the Director or any of his associates is beneficially interested in shares of that company other than a company in which the Director and any of his associates are in aggregate beneficially interested in five per cent. or more of the issued shares of any class of the equity share capital of such company (or of any third company through which such interest is derived) or of the voting rights (excluding for the purpose of calculating such five per cent. interest any indirect interest of such Director or any of his associates by virtue of an interest of the Company in such company);
 - (vi) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates

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to Directors, their associates and employees of the Company or of any of its subsidiaries and does not give in respect of any such Director or any of his associates any privilege or advantage not generally accorded to the class of persons to whom such scheme or fund relates;

- (vii) any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or any of his associates may benefit.

If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or any of his associates or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director or any of his associates shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned or any of his associates as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting or any of his associates such question shall be decided by a resolution of the Board (for which purpose such Chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such Chairman or any of his associates as known to such chairman has not been fairly disclosed to the Board.

109. A Director may continue to be or become a director, managing director, joint managing director, executive director, chief executive officer or manager or other officer or member of any other company in which the Company is interested, and (unless otherwise agreed) shall not be liable to account to the Company for any remuneration or other benefits received by him as a director, managing director, joint managing director, executive director, chief executive officer, manager or other officer or member of any such other company. The Board may exercise the voting powers conferred by the shares in any other company held or owned by the Company or exercisable by it as directors of such other company in such manner as in all respects as the Board thinks fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, chief executive officers, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) and any director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or be about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, chief executive officer, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid. A Director of the Company may be or become a director of any company promoted by the Company or in which it may be interested as a vendor, shareholder or otherwise and no such Director will be accountable for any benefits received as a director or member of such company. A Director of the Company or his firm may not act as auditor of the Company.

CHIEF EXECUTIVE OFFICERS AND OTHER APPOINTMENTS

110. The Directors may, from time to time, appoint one or more of their number to be Chief Executive Officer or Joint Chief Executive Officer of the Company, or to hold such office in the management, administration or conduct of the business of the Company as they may decide, and for such period and upon such terms and for such remuneration as the Directors shall think fit, and the Directors may also, from time to time (subject to the provisions of any agreement between him or them and the Company) remove him or them from office, and appoint another or others in his or their place or places.
111. A Chief Executive Officer or a Joint Chief Executive Officer (subject to the provisions of any agreement between him and the Company) shall be subject to the same provisions as to resignation and removal as the other Directors of the Company, and shall ipso facto and immediately cease to be Chief Executive Officer or Joint Chief Executive Officer if he shall cease to hold the office of Director.
112. The Directors may, from time to time, entrust to and confer upon any Chief Executive Officer, Joint Chief Executive Officer or Director, holding any other office in the management, administration or conduct of the business of the Company, such of the powers exercisable under these Articles by the Directors as they may think fit, and may confer such powers for such time, and to be exercised for such objects and purposes, and upon such terms and conditions and with such restrictions as they may consider expedient, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

PROCEEDINGS OF DIRECTORS

113. The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business. Until otherwise determined by the Board, two Directors shall constitute a quorum. For the purpose of this Article an alternate Director shall be counted in a quorum but, notwithstanding that an alternate Director is also a Director or is an alternate for more than one Director, he shall for quorum purposes count as only one Director. Matters arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman of the meeting shall have a second or casting vote. A Director or the Secretary may, at any time, summon a meeting of the Directors. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.
114. Notice of a meeting of Directors shall be deemed to be duly given to a Director if it is given to him personally, in writing or by word of mouth, or sent to him at his last known address or any other address given by him to the Company for this purpose provided that notice need not be given to any Director or alternate Director for the time being absent from Hong Kong. A Director may consent to short notice of and may waive notice of any meeting and any such waiver may be retrospective.

115. The Directors may elect a Chairman of the Board and determine the period for which he is to hold office; but if no such Chairman be elected, or if at any meeting the Chairman be not present within five minutes after the time appointed for holding the same, the Directors present shall choose one of their number to be Chairman of such meeting.
116. A resolution in writing signed by all the Directors except such as are absent from Hong Kong or temporarily unable to act through ill health or disability (or their alternate Directors) shall (so long as they constitute a quorum) be as effective for all purposes as a resolution of the Directors passed at a meeting duly convened, held and constituted. A written notification of confirmation of such resolution in writing signed by a Director shall be deemed to be his signature to such resolution in writing for the purposes of this Article. Such resolution in writing may consist of several documents, each signed by one or more Directors.
117. A meeting of the Directors at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board generally.
118. The Directors may, from time to time, appoint committees consisting of such one or more persons as they think fit, and may delegate any of their powers to any such committee and, from time to time, revoke any such delegation and discharge any such committee wholly or in part. Any committee so appointed shall, in the exercise of the powers so delegated, conform to any regulations that may, from time to time, be imposed upon it by the Directors. All acts done by any such committee in conformity with such regulations and in fulfilment of the purposes for which it is appointed, but not otherwise, shall have the like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any special committee, and charge such remuneration to the current expenses of the Company.
119. The meetings and proceedings of any such committee consisting of two or more members shall be governed mutatis mutandis by the provisions of these Articles regulating the meetings and proceedings of the Directors, insofar as the same are not superseded by any regulations made by the Directors under the last preceding Article.
120. All acts done bona fide by any meeting of the Directors or of a committee of Directors, or by any persons acting as Directors, shall, notwithstanding that there was some defect in the appointment of any such Directors or persons acting as aforesaid, or that they or any of them were disqualified, or had vacated office, be as valid as if every such person had been duly appointed and was qualified and continued to be a Director.

MINUTES

121. The Directors shall cause to be entered and kept in books provided for the purpose minutes of the following:
 - (a) all appointments of officers;
 - (b) all the names of the Directors and any alternate Director who is not also a Director present at each meeting of the Directors and of any committee; and

(c) all resolutions and proceedings of general meetings and of meetings of the Directors and committees.

Any such minutes of any meeting of the Directors, or of any committee, or of the Company, if purporting to be signed by the Chairman of such meeting, or by the Chairman of the next succeeding meeting shall be receivable as evidence of the proceedings of such meeting.

THE SEAL

122. The Directors shall procure a common seal to be made for the Company, and shall provide for the safe custody thereof. The Seal shall not be affixed to any instrument except by the authority of the Directors or a committee authorised by the Board in that behalf, and every instrument to which the Seal shall be affixed shall be signed by one Director or some other person nominated by the Directors for the purpose, provided that the Board may either generally or in any particular case or cases resolve (subject to such restrictions as to the manner in which the seal may be affixed as the Board may determine) that such signature may be affixed to certificates for shares or debentures or representing any other form of security by some mechanical means other than autographic to be specified in such resolution or that such certificates need not be signed by any person. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Directors previously given. 2(1)
123. The Company may have an official seal for use for sealing certificates for shares or other securities issued by the Company as permitted by section 73A of the Ordinance (and no signature of any Director, officer or other person and no mechanical reproduction thereof shall be required on any such certificates or other document to which such official seal is affixed and such certificates or other document shall be valid and deemed to have been sealed and executed with the authority of the Board notwithstanding the absence of any such signature or mechanical reproduction as aforesaid) and an official seal for use abroad under the provisions of the Ordinance where and as the Board shall determine, and the Company may by writing under the seal appoint any agents or agent, committees or committee abroad to be the duly authorised agents of the Company for the purpose of affixing and using such official seal and may impose such restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the seal, the reference shall, when and so far as may be applicable, be deemed to include any such official seal as aforesaid.
124. The Company may exercise all the powers of having official seals conferred by the Ordinance and such powers shall be vested in the Directors.

SECRETARY

125. The Directors shall appoint such person, persons or entities to be Secretary or Joint Secretaries of the Company for such period, at such remuneration and upon such conditions as they may think fit, and any Secretary or Joint Secretaries so appointed may be removed by them. Anything by the Ordinance or these Articles required or authorised to be done by or to the Secretary or Joint Secretaries, if the office is vacant or there is for any other reason no person capable of acting in the capacity as Secretary or Joint Secretaries, may be done by or to any assistant or deputy Secretary, or if there is no assistant or deputy Secretary capable of acting, by or to any officer of the Company authorised generally or specially in that behalf by the Board.

DIVIDENDS AND RESERVES

126. The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.
127. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. For the purposes of this Article no amount paid on a share in advance of calls shall be treated as paid on the share.
128. The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien, and may apply the same in or towards satisfaction of the debts and liabilities in respect of which the lien exists. The Board may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.
129. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Directors, may specify that the same shall be payable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to capitalisations to be effected in pursuance of these Articles.
130. Any general meeting sanctioning a dividend may make a call on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him, and so that the call shall be made payable at the same time as the dividend, and the dividend may, if so arranged between the Company and the member, be set off against the call.
131. (a) In respect of any dividend which the Board has resolved to pay or any dividend declared or sanctioned or proposed to be declared or sanctioned by the Board or by the Company in general meeting, the Board may determine and announce, prior to or contemporaneously with the announcement, declaration or sanction of the dividend in question:
either
 - (i) that shareholders entitled thereto will receive in lieu of such dividend (or such part thereof as the Board may think fit) an allotment of shares credited as fully paid provided that the shareholders are at the same time accorded the right to elect to receive such dividend (or part thereof as the case may be) in cash in lieu of such allotment. In such case, the following provisions shall apply:
 - (A) the basis of any such allotment shall be determined by the Board;

- (B) the Board, after determining the basis of allotment and notwithstanding that the number of shares to be allotted may not be calculated until after notice to the shareholders has been given as required by the provisions of this sub-paragraph and subject to the provisions of sub-paragraph (D) below, shall give notice in writing to the shareholders of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective which shall be not less than two weeks from the date on which the notice above referred to was despatched to the shareholders;
- (C) the right of election accorded to shareholders as aforesaid may be exercised in whole or in part;
- (D) the Board may resolve:
 - (I) that the right of election accorded to shareholders as aforesaid may be exercised so as to take effect on all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (i) of this paragraph (a); and/or
 - (II) that a shareholder who does not exercise the right of election accorded to him as aforesaid either in whole or in part may notify the Company that he will not exercise the right of election accorded to him in respect of all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (i) of this paragraph (a) of this Article.

Provided that a shareholder may exercise such election or give such notice in respect of all but not some of the shares held by him and may at any time give seven days notice in writing to the Company of the revocation of such an election or such a notice which revocation shall take effect at the expiry of such seven days, and until such revocation has taken effect, the Board shall not be obligated to give to such shareholder notice of the right of election accorded to him or send to him any form of election;

- (E) the dividend (or that part of the dividend in lieu of which an allotment of shares is to be made as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised (the "Non-Elected Shares") and in lieu thereof shares shall be allotted credited as fully paid to the holders of the Non-Elected Shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of the amount standing to the credit of share premium account or out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account)

as the Board may determine, a sum equal to the aggregate nominal amount of shares to be allotted on such basis and apply the same in paying up in full the appropriate number of unissued shares for allotment and distribution to and amongst the holders of the Non-Elected Shares on such basis;

- (F) the Board may resolve that the shares to be allotted shall be allotted at a premium provided that the premium is credited as fully paid up and in such case the Board shall in addition to the amount to be capitalised and applied pursuant to sub-paragraph (E) above, and for the purposes therein set out, capitalise and apply out of the amount standing to the credit of the share premium account or out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account) as the Directors may determine, a sum equal to the aggregate amount of the premium on the shares to be allotted and shall apply the same together with the sum to be applied pursuant to sub-paragraph (E) above and on the basis therein set out in paying up in full the appropriate number of unissued shares for allotment and distribution to and amongst the holders of the Non-Elected Shares;

or

- (ii) that shareholders entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:
 - (A) the basis of any such allotment shall be determined by the Board;
 - (B) the Board, after determining the basis of allotment and notwithstanding that the number of shares to be allotted may not be calculated until after notice to the shareholders has been given as required by the provisions of this sub-paragraph and subject to the provisions of sub-paragraph (D) below, shall give notice in writing to the shareholders of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective which shall be not less than two weeks from the date on which the notice above referred to was despatched to the shareholders;
 - (C) the right of election accorded to shareholders as aforesaid may be exercised in whole or in part;

- (D) the Board may resolve;
- (I) that the right of election accorded to shareholders as aforesaid may be exercised so as to take effect on all future occasions (if any) when the Board makes a determination pursuant to sub-paragraph (ii) of this paragraph (a); and/or
 - (II) that a shareholder who does not exercise the right of election accorded to him as aforesaid either in whole or in part may notify the Company that he will not exercise the right of election accorded to him in respect of all future occasions (if any) when the Board makes determination pursuant to sub-paragraph (ii) of paragraph (a).

Provided that a shareholder may exercise such election or give such notice in respect of all but not some of the shares held by him and may at any time give seven days notice in writing to the Company of the revocation of such an election or such a notice which revocation shall take effect at the expiry of such seven days, and until revocation has taken effect, the Board shall not be obliged to give to such member notice of the right of election accorded to him or send to him any form of election;

- (E) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable on shares in respect whereof the share election has been duly exercised (the **Elected Shares**) and in lieu thereof shares shall be allotted credited as fully paid to the holders of the Elected Shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of the amount standing to the credit of share premium account or out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account) as the Board may determine, a sum equal to the aggregate nominal amount of shares to be allotted on such basis and apply the same in paying up in full the appropriate number of unissued shares for allotment and distribution to and amongst the holders of the Elected Shares on such basis;
- (F) the Board may resolve that the shares to be allotted shall be allotted at a premium provided that the premium is credited as fully paid up and in such case the Board shall in addition to the amount to be capitalised and applied pursuant to sub-paragraph (E) above, and for the purpose therein set out, capitalise and apply out of the amount standing to the credit of the share premium account or out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account) as the Board may determine, a sum equal to the aggregate amount of the premium on the shares to be

allotted and shall apply the same together with the sum to be applied pursuant to sub-paragraph (E) above and on the basis therein set out in paying up in full the appropriate number of unissued shares for allotment and distribution to and amongst holders of the Elected Shares.

- (b) The shares allotted pursuant to the provisions of paragraph (a) of this Article shall rank pari passu in all respects with the fully paid shares then in issue save only as regards participation:
- (i) in the relevant dividend (or the right to receive or to elect to receive an allotment of shares in lieu thereof as aforesaid); or
 - (ii) in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend

unless, contemporaneously with the announcement by the Board of its proposal to apply the provisions of sub-paragraph (i) or (ii) of paragraph (a) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (a) of this Article shall rank for participation in such distribution, bonus or rights.

- (c) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (a) of this Article with full power to the Board to make such provisions as they think fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the members concerned). The Board may authorise any person to enter into on behalf of all members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.
- (d) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (a) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shares to elect such dividend in cash in lieu of such allotment.
- (e) The Board may on any occasion when it makes a determination pursuant to paragraph (a) of this Article, resolve that no allotment of shares or rights of election for shares to be issued pursuant to such determination shall be made available or made to any shareholders with registered addresses in any particular territory or territories or to a Depositary where the allotment of shares or the circulation of an offer of such rights of election would or might, in the opinion of the Board, be unlawful or would or might, in the opinion of the Board, be unlawful in the absence of a registration statement or other special formalities, and in such event the provision aforesaid shall be read

and construed subject to such resolution and the only entitlement of shareholders in any such territory or territories shall be to receive in cash the relevant dividend resolved to be paid or declared. "Depository" means a custodian or other person (or a nominee for such custodian or other person) appointed under contractual arrangements with the Company or other arrangements approved by the Board whereby such custodian or other person or nominee holds or is interested in shares of the Company or rights or interests in shares of the Company and issues securities or other documents of title or otherwise evidencing the entitlement of the holder thereof to or to receive such shares, rights or interests, provided and to the extent that such arrangements have been approved by the Board for the purpose of these Articles and shall include, where approved by the Board, the trustees (acting in their capacity as such) of any employees' share scheme established by the Company or any other scheme or arrangements principally for the benefit of employees of the Company and/or its subsidiaries which have been approved by the Board.

- (f) The Board may at any time resolve to cancel all (but not some only) of the elections made and the notices given by the shareholders pursuant to sub-paragraphs (i)(D) and (ii)(D) of paragraph (a) of this Article by giving seven days notice in writing to the relevant shareholders.
 - (g) The Board may on any occasion determine that rights of election under paragraph (a) of this Article shall not be made available to shareholders who are registered in the register of shareholders, or in respect of shares the transfer of which is registered, after a date fixed by the Board and in such event the provisions aforesaid shall be read and construed subject to such determination.
132. No dividend shall be payable except out of the profits or other distributable reserves of the Company, and no dividend shall bear interest as against the Company.
133. The Directors may, if they think fit, from time to time, resolve to pay to the members such interim dividends as appear to the Directors to be justified by the reserves of the Company. If at any time the share capital of the Company is divided into different classes the Directors may resolve to pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential or special rights in regard to dividend, and provided that the Directors act bona fide they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may also resolve to pay at half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the reserves of the Company justify the payment.
134. All dividends unclaimed for one year after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed, and all dividends unclaimed for six years after having become payable may be forfeited by the Directors and shall revert to the Company. The payment into a separate account of any monies payable in respect of a dividend shall not constitute the Company a trustee in respect thereof for any person. 3(2)

135. Unless otherwise directed any dividend or other monies payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the member or person entitled, or, in the case of joint holders, to the registered address of that one whose name stands first on the Register in respect of the joint holding, or addressed to such person at such address as the holder or joint holders shall direct. The Company shall not be liable or responsible for any cheque or warrant lost in transmission nor for any dividend or other monies lost to the member or person entitled thereto by the forged endorsement of any cheque or warrant. Payment of the cheque or warrant by the banker on whom it is drawn shall be a good discharge to the Company.
136. The Directors may distribute in specie or in kind among the members in satisfaction in whole or in part of any dividend any of the assets of the Company, and in particular any shares or securities of other companies to which the Company is entitled and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue fractional certificates, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend and such appointment shall be effective. Where required, a contract shall be filed in accordance with the provisions of the Ordinance and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend and such appointment shall be effective.
137. Before recommending a dividend the Directors may set aside any part of the net profits of the Company to one or more reserves, and may apply the same either by employing it in the business of the Company or by investing it in such manner as they shall think fit and the income arising from such reserves shall be treated as part of the profits of the Company. Such reserves may be applied for the purpose of maintaining the property of the Company, replacing wasting assets, meeting contingencies, forming an insurance fund, equalising dividends, paying special dividends, or for any other purpose for which the undivided profits of the Company may lawfully be used, and until the same shall be so applied it shall be deemed to remain undivided profit. The Directors may also carry forward as undivided profit any profit or balance of profit which they shall not think fit to recommend as dividend or to place to reserve.

AUTHENTICATION OF DOCUMENTS

138. Any Director or the Secretary or other authorised officer of the Company shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the Directors or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies of extracts; and where any books, records, documents or accounts are elsewhere than at the Office, the local manager or such other officer of the Company having the custody thereof shall be deemed to be the authorised officer of the Company as aforesaid. A document purporting to be a copy of a resolution or an extract from the minutes of a meeting of the Company or of the Directors or any local board or committee which is certified as aforesaid shall be conclusive evidence in favour of all persons dealing

with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that any minute so extracted is a true and accurate record of proceedings at a duly constituted meeting.

CAPITALISATION OF RESERVES ETC.

139. The Company in general meeting may upon the recommendation of the Directors resolve to capitalise any part of the Company's reserves or undivided profits not required for the payment or provision of the dividend on any shares with a preferential right to a dividend, and accordingly that such part be divided amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportions, on condition that the same be not paid in cash but be applied as a capitalisation issue either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively or paying up in full unissued shares or debentures or other securities of the Company to be allotted and distributed credited as fully paid to and amongst such members in the proportion aforesaid, or partly in one way and partly in the other:

provided that any amount standing to the credit of a share premium account or a capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid-up shares.

140. Whenever such a resolution as aforesaid shall have been passed the Directors shall make all appropriations and applications of the reserves and undivided profits resolved to be capitalised thereby, and all allotments and issues of fully paid-up shares, debentures or other securities and generally shall do all acts and things required to give effect thereto.

141. For the purpose of giving effect to any resolution under Articles 136 and 139 hereof the Directors may settle any difficulty which may arise in regard to the distribution or capitalisation issue as they think expedient, and in particular may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any members based upon the value so fixed or that fractions of such value as the Directors may determine may be disregarded in order to adjust the rights of all parties, and may vest any such cash or specific assets in trustees upon such trusts for the persons entitled to the distribution or capitalisation issue as may seem expedient to the Directors. The provisions of the Ordinance in relation to the filing of contracts for allotment shall be observed, and the Directors may appoint any person to sign such contract on behalf of the persons entitled to share in the distribution or capitalisation issue, and such appointment shall be effective and binding upon all concerned, and the contract may provide for the acceptance by such persons of the shares, debentures or other securities to be allotted and distributed to them respectively in satisfaction of their claims in respect of the sum so capitalised.

ACCOUNTS AND AUDITORS

142. The Directors shall cause proper books of account to be kept with respect to:

- (a) all sums of money received and expended by the Company and the matters in respect of which such receipt and expenditure take place; and
- (b) the assets and liabilities of the Company.

Proper book shall not be deemed to be kept if there are not kept such books of accounts as are necessary to give a true and fair view of the transactions.

- 143 (A) The Directors shall, from time to time, in accordance with the Ordinance, cause to be prepared and to be laid before its annual general meeting the relevant financial documents required by the Ordinance. The Directors may also cause to be prepared a summary financial report if they think fit, which may be provided to members and/or debenture holders instead of the relevant financial documents in circumstances permitted by the Ordinance, the Listing Rules and any other applicable laws, rules and regulations.
- (B) Subject to paragraph (C) below, a copy of the relevant financial documents or the summary financial report shall, not less than 21 days before the meeting, be delivered or sent by post to the registered address of every member and debenture holder of the Company, or in the case of a joint holding to the member or debenture holder (as the case may be) whose name stands first in the appropriate Register in respect of the joint holding. No accidental non-compliance with the provisions of this Article shall invalidate the proceedings at the meeting.
- (C) Where a member or debenture holder of the Company has, in accordance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations, consented to treat the publication of the relevant financial documents and/or the summary financial report on the Company's computer network as discharging the Company's obligation under the Ordinance to send a copy of the relevant financial documents and/or the summary financial report, then subject to compliance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations, publication by the Company on the Company's computer network of the relevant financial documents and/or the summary financial report at least 21 days before the date of the meeting shall, in relation to each such member or debenture holder of the Company, be deemed to discharge the Company's obligations under paragraph (B) above.
144. For the purpose of Article 143, "relevant financial documents" and "summary financial report" shall have the meaning ascribed to them in the Ordinance."
145. Auditors shall be appointed and their duties regulated in the manner provided by the Ordinance.
146. Subject as otherwise provided by the Ordinance the remuneration of the Auditors shall be fixed by the Company in general meeting provided always that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Board.
147. Every statement of accounts audited by the Company's Auditors and presented by the Board at a general meeting shall after approval at such meeting be conclusive except as regards any error discovered therein within three months of the approval thereof. Whenever any such error is discovered within that period, it shall forthwith be corrected, and the statement of accounts amended in respect of the error shall be conclusive.

NOTICES

- 148 Any notice or document to be given or issued under these Articles shall be in writing, except that any such notice or document to be given or issued by or on behalf of the Company under these Articles (including any “corporate communication” within the meaning ascribed thereto in the Listing Rules) shall be in writing which may or may not be in a transitory form and may be recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form (including an electronic communication and publication on a computer network) whether having physical substance or not may be served or delivered by the Company by any of the following means subject to and to such extent permitted by and in accordance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations: 7(3)
- (i) personally;
 - (ii) by sending it through the post in a properly prepaid letter, envelope or wrapper addressed to a member at his registered address as appearing in the Register of Members or in the case of another entitled person, to such address as he may provide;
 - (iii) by delivering or leaving it at such address as aforesaid;
 - (iv) by advertisement in an English language newspaper and a Chinese language newspaper in Hong Kong in accordance with the Listing Rules;
 - (v) by transmitting it as an electronic communication to the entitled person at such electronic address as he may have provided; or
 - (vi) by publishing it on a computer network.
149. Any notice or document (including any “corporate communication” within the meaning ascribed thereto in the Listing Rules) given or issued by or on behalf of the Company:
- (i) if sent by post, shall be deemed to have been served on the day following that on which the envelope or wrapper containing the same is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office (airmail if posted from Hong Kong to an address outside Hong Kong) and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so properly prepaid, addressed and put into such post office shall be conclusive evidence thereof;
 - (ii) if not sent by post but delivered or left at a registered address by the Company, shall be deemed to have been served on the day it was so delivered or left;
 - (iii) if published by way of a newspaper advertisement, shall be deemed to have been served on the date on which it is advertised in one English language newspaper and one Chinese language newspaper in Hong Kong;

- (iv) if sent as an electronic communication, shall be deemed to have been served at the time when the notice or document is transmitted electronically provided that no notification that the electronic communication has not reached its recipient has been received by the sender, except that any failure in transmission beyond the sender's control shall not invalidate the effectiveness of the notice or document being served; and
 - (v) if published on the Company's computer network, shall be deemed to have been served on the day on which the notice or document is published on the Company's computer network to which the entitled person may have access.
- 149A. Subject to any applicable laws, rules and regulations, any notice or document, including but not limited to the documents referred to in Article 143 and any "corporate communication" within the meaning ascribed thereto in the Listing Rules, may be given in the English language only, in the Chinese language only or in both the English language and the Chinese language.
- 149B. For the purpose of Article 148 and 149, "entitled person" shall have the meaning ascribed to them in the Ordinance.
150. Any person who, by operation of law, transfer or other means whatsoever, shall become entitled to any share shall be bound by every notice in respect of such share which, previously to his name and address being entered in the Register, shall be duly given to the person from whom he derives his title to such share.
151. Any notice or document served in accordance with these Articles shall, notwithstanding such member be then deceased or bankrupt, and whether or not the Company has notice of his decease or bankruptcy, be deemed to have been duly served in respect of any shares held by such member, whether held solely or jointly with other persons by such member, until some other person be registered in his stead as the holder or joint holder thereof, and such service shall for all purposes of these Articles be deemed a sufficient service of such notice or document on his executors, administrators or assigns and all persons (if any) jointly interested with him in any such share.
152. Any summons, notice, order or other document required to be sent to or served upon the Company, or upon any officer of the Company, may be sent or served by leaving the same or sending it through the post in a prepaid letter, envelope or wrapper, addressed to the Company or to such officer at the Office.
153. The signature to any notice to be given by the Company may be written, typed, printed or made electronically.
154. Subject to any special provisions contained in these Articles or in the Ordinance, all notices required to be given by advertisement shall be advertised in at least one daily Chinese and one daily English newspaper circulating in Hong Kong. 7(1)
155. In reckoning the period for any notice given under these Articles, the day on which notice is served, or deemed to be served, and the day for which such notice is given shall be excluded.

WINDING UP

156. If the Company shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid-up capital, they shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid upon on the shares held by them respectively. This Article is, however, subject to the rights of the holders of any shares which may be issued on special terms or conditions.
157. If the Company shall be wound up, the liquidator (whether voluntary or official) may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company or vest any part of the assets of the Company in trustees upon such trusts for the benefit of the members or any of them as the resolution shall provide. Any such resolution may provide for and sanction a distribution of any specific assets amongst different classes of members otherwise than in accordance with their existing rights, but each member shall in that event have a right of dissent and other ancillary rights in the same manner as if such resolution were a special resolution passed pursuant to section 237 of the Ordinance.
158. In the event of a winding-up of the Company in Hong Kong, every member of the Company who is not for the time being in Hong Kong shall be bound, within fourteen days after the passing of an effective resolution to wind up the Company voluntarily, or within the like period after the making of an order for the winding up of the Company, to serve notice in writing on the Company appointing some person resident in Hong Kong upon whom all summonses, notices, processes, orders and judgements in relation to or under the winding up of the Company may be served and, in default of such nomination, the liquidator of the Company shall be at liberty on behalf of such member to appoint some such person, and service upon any such appointee shall be deemed to be a good personal service on such member for all purposes, and where the liquidator makes any such appointment he shall, with all convenient speed, give notice thereof to such member by advertising in such English language daily newspaper circulating in Hong Kong as he shall deem appropriate or by a registered letter sent through the post and addressed to such member at his address as appearing in the Register, and such notice shall be deemed to be served on the day on which the advertisement appears or the letter is posted.

INDEMNITY

159. Subject to the provisions of the Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto and in particular and without prejudice to the generality of the foregoing every Director and other officer of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company to pay all costs, losses and expenses which any such Director and other officer may incur or become liable for by reason of any contract entered into, or act or thing done by him or them as such Director and other officer, or in any way in the discharge of their or his duties, including travelling expenses; and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Company, and have priority as

between the members over all other claims. Any person who is a Director or other officer of the Company shall not be liable (except in consequence of his own dishonesty) for the acts, receipts, neglects or defaults of any other Director or other officer of the Company or for any losses or expenses incurred by the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or effects of the Company shall be deposited or for any loss occasioned by any error of judgement, omission, default or oversight on their or his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto.

DESTRUCTION OF DOCUMENTS

160. Subject to the Ordinance, the Company may destroy:

- (a) any share certificate which has been cancelled at any time after the expiry of one year from the date of such cancellation;
- (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two years from the date on which such mandate, variation, cancellation or notification was recorded by the Company;
- (c) any instrument of transfer of shares which has been registered at any time after the expiry of six years from the date of registration; and
- (d) any other document, on the basis of which any entry in the register is made, at any time after the expiry of six years from the date on which an entry in the register was first made in respect of it;

and it shall conclusively be presumed in favour of the Company that every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that:

- (i) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim;
- (ii) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (i) above are not fulfilled; and
- (iii) references in this Article to the destruction of any document include reference to its disposal in any manner.

UNTRACEABLE SHAREHOLDERS

161. Without prejudice to the rights of the Company, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. 13(1)
162. The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a shareholder who is untraceable, but no such sale shall be made unless: 13(2)(a)
- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of Association of the Company have remained uncashed;
 - (ii) so far as it is aware at the end of the relevant period, the Company has not at any time, during the relevant period received any indication of the existence of the shareholder who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law;
 - (iii) the Company has caused an advertisement to be inserted in English in one English language daily newspaper and in Chinese in one Chinese language daily newspaper (provided that the aforesaid daily newspapers shall be included in the list of newspaper issued and published in the Hong Kong Government Gazette for the purpose of section 71A of the Ordinance) advertising its intention to sell such shares and a period of three months has elapsed since the date of such advertisement; and 13(2)(b)
 - (iv) the Company has notified the stock exchange in the relevant territory of its intention to effect such sale.
- For the purpose of the foregoing, “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (iii) of this Article and ending at the expiry of the period referred to in that paragraph. 13(2)
- The manner, timing and terms of any sale of shares pursuant to this Article (including but not limited to the price or prices at which the same is made) shall be such as the Board determines, based upon advice from such bankers, brokers or other persons as the Board considers appropriate consulted by it for the purposes, to be reasonably practicable having regard to all the circumstances including the number of shares to be disposed of and the requirement that the disposal be made without delay and the Board shall not be liable to any person for any of the consequences of reliance on such advice.
163. To give effect to any such sale pursuant to Article 162 the Board may authorise any person to transfer the said shares and the instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in

the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and, upon receipt by the Company of such proceeds, it shall become indebted to the former shareholder by carrying all moneys in respect thereof to a separate account for an amount equal to such net proceeds. No trusts shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall include any additional shares which during the relevant period or during any period ending on the date when all the requirements of sub-paragraphs (i) to (iii) of Article 162 have been satisfied have been issued in respect of those held at the beginning of such relevant period and shall be valid and effective notwithstanding that the shareholder holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

English Summary of CDMA Business Disposal Agreement

Part I — Key Particulars

- Parties:
- (1) China Unicom Corporation Limited (“CUCL”), a company incorporated in the People’s Republic of China (the “PRC”) with limited liability and a wholly-owned subsidiary of Unicom;
 - (2) China Telecom Corporation Limited (“Telecom”), a joint stock limited company incorporated in the PRC with limited liability, whose shares are listed on the Hong Kong Stock Exchange and whose American Depositary Shares (“ADSs”) are listed on the New York Stock Exchange; and
 - (3) China Unicom Limited (“Unicom”), a company incorporated in Hong Kong with limited liability, whose shares are listed on the Hong Kong Stock Exchange and whose ADSs are listed on the New York Stock Exchange.

Date of Agreement: July 27, 2008

Part II — Material Terms

The following is a summary of the material terms of the CDMA Business Disposal Agreement:

(a) CDMA Business Disposal Agreement

On June 2, 2008, Unicom, CUCL and Telecom entered into the CDMA Business Framework Agreement, which sets out the terms and conditions on which Unicom, CUCL and Telecom will proceed with the disposal of the CDMA Business (as defined below) whereby CUCL will sell, and Telecom will purchase, certain CDMA business and its related assets and liabilities.

On July 27, 2008, Unicom, CUCL and Telecom entered into the CDMA Business Disposal Agreement, which sets out the detailed terms and conditions on which CUCL and Unicom will sell, and Telecom will purchase, the CDMA Business. The CDMA Business Disposal Agreement supersedes the CDMA Business Framework Agreement and all other previous oral or written agreements in connection with the disposal of the CDMA Business (as defined below).

(b) CDMA Business

Pursuant to the CDMA Business Disposal Agreement:

- (1) CUCL has agreed to sell, and Telecom has agreed to purchase, the entire CDMA business, which is owned and operated by CUCL, together with the assets of CUCL which are relevant to the CDMA business and the rights and liabilities of CUCL relating to its CDMA subscribers, immediately prior to October 1, 2008 or such other date as Unicom, CUCL and Telecom may agree (the “Completion Date”), and comprising, amongst others (Articles 1.1(1) and 5.1 of the CDMA Business Disposal Agreement):
 - (i) CDMA business provided by CUCL immediately prior to the Completion Date based on the existing network capacity and system support capability (including relevant access channel and service functions) as well as CDMA business

operation services (Article 1.1 of Exhibit 2 to the CDMA Business Disposal Agreement);

- (ii) all mobile subscribers with user code information of 133/153 numbers as at 12:00 a.m. on the Completion Date as recorded in CUCL's billing system and other relevant systems, as well as the rights and obligations relating to such CDMA subscribers which are to be dealt with by way of cash settlement on the Completion Date. The items to be included in such settlement are (a) accounts receivable from subscribers (to be calculated based on 2007 average recovery rate), (b) advance from customers, (c) prepaid fees from customers in respect of CDMA rechargeable cards, (d) customers' deposits, (e) accrued liabilities for subscribers' bonus points (to be calculated based on the bonus point conversion ratio set out in the CDMA Business Disposal Agreement) and (f) the carrying amount in respect of the deferred handset subsidies as at the Completion Date (to be calculated based on a 50% split as set out in the CDMA Business Disposal Agreement) (Articles 2.1(1), 2.2(1) and 2.2(2) of Exhibit 2 to the CDMA Business Disposal Agreement);
- (iii) transferred assets relating to the CDMA business as set out in the CDMA Business Disposal Agreement, comprising (a) assets exclusively used by the CDMA business including, but not limited to, UIM cards, rechargeable cards, terminals and network equipment, (b) information/data of CDMA subscribers, (c) all self-owned sales offices at county level or below in Beijing, Tianjin, Heilongjiang, Liaoning, Jilin, Inner Mongolia, Shanxi, Henan, Hebei, and Shandong (including provinces, directly controlled municipalities and autonomous regions) (the "Ten Northern Provinces") (including districts and counties located in the suburbs of Beijing and Tianjin) and 50% of all self-owned sales offices at above (but excluding) county level as well as 50% of leased self-operated sales offices in the Ten Northern Provinces, (d) certain jointly used CDMA network base stations/auxiliary facilities, (e) certain transmission assets relating to the CDMA business and (f) other tangible and intangible assets relating to the CDMA business as set out in the CDMA Business Disposal Agreement (Articles 3.2 to 3.23 of Exhibit 2 to the CDMA Business Disposal Agreement);
- (iv) except for certain contracts as provided in the CDMA Business Disposal Agreement, (a) for the rights and obligations under contracts exclusively relating to the CDMA business, those formerly enjoyed and assumed by CUCL before the Completion Date shall continue to be enjoyed and assumed by CUCL, and on and after the Completion Date, all such rights and obligations shall be enjoyed and assumed by Telecom; (b) for the rights and obligations under contracts not exclusively relating to the CDMA business, all the rights and obligations before the Completion Date shall continue to be enjoyed and assumed by CUCL; and on and after the Completion Date, based on the principle that liabilities should be borne consistent with rights and interests allocation, Telecom and CUCL shall respectively enjoy and assume the rights and obligations under such contracts in an honest, fair and bona fide manner; and (c) with respect to the agreements and business arrangements relating to sales channels and customer services in connection with the CDMA business, CUCL shall be responsible for amending the original exclusivity contracts entered into by CUCL with third parties before the Completion Date in such a manner that Telecom will be able to enjoy or share the rights under such contracts; and for the exclusivity contracts renewed by CUCL with third parties within three years after the Completion Date, such exclusivity clause included in

these contracts shall not apply to Telecom. If Telecom enters into any new contract with the counterparty of any original exclusivity contract within three years after the Completion Date, the exclusivity clause shall not apply to CUCL (Article 4.2 of Exhibit 2 to the CDMA Business Disposal Agreement);

- (v) other business, rights or liabilities to be disposed of by CUCL to Telecom in the following manner: (a) with respect to the amount to be amortized for property leasing and line leasing, the balance to be amortized from the Completion Date with respect to the CDMA business shall be assumed by Telecom through a one-time purchase and be settled in cash on completion; (b) the arrangements for the use rights relating to the CDMA business include, but are not limited to, use right arrangements relating to computer rooms, use right arrangements for the licensing of intellectual property rights relating to the CDMA business, and other use right arrangements as agreed by the parties in the CDMA Business Disposal Agreement; and (c) the number of contracted employees to be transferred to Telecom represents 29.3% of the total number of contracted employees of CUCL and Unicom Huasheng Telecommunications Technology Company Limited. In addition, a certain number of the employees who are employed by third parties and are working on secondment for CUCL will be transferred to provide services to Telecom (Article 5 of Exhibit 2 to the CDMA Business Disposal Agreement);
- (2) Unicom (by itself and through its subsidiary) has agreed to sell, and Telecom (by itself and through its subsidiary) has agreed to purchase, the entire equity interest in China Unicom (Macau) Company Limited (Article 1.1(2)(a) of the CDMA Business Disposal Agreement); and
- (3) CUCL has agreed to sell, and Telecom has agreed to purchase, 99.5% of the equity interest in Unicom Huasheng Telecommunications Technology Company Limited (representing the entire equity interest in Unicom Huasheng Telecommunications Technology Company Limited held by CUCL, and Unicom has been notified by Unicom Group that the remaining 0.5% of the equity interest in Unicom Huasheng Telecommunications Technology Company Limited will be sold by Unicom Group to Telecom Group) (Article 1.1(2)(b) of the CDMA Business Disposal Agreement).

(1), (2) and (3) above are collectively referred to as the “CDMA Business”.

The scope of the CDMA Business is set out in the CDMA Business Disposal Agreement and the detailed items will be confirmed in a final list of the detailed items of the CDMA Business. Within 20 days after the Completion Date (or such other date as agreed between the parties), CUCL, Unicom and Telecom will commence the identification process of the detailed items of the CDMA Business, and will prepare, acknowledge and sign a final list of such detailed items based on the results of such identification work. After the parties have signed the final list, the final list may still be adjusted by the agreement of the parties by no later than the date falling 60 days after the Completion Date (or such other date as the parties may agree), being the date of actual delivery of the CDMA Business and all relevant documentation by CUCL and Unicom to Telecom (the “Delivery Date”). CUCL, Unicom and Telecom (or their respective provincial branches) will confirm the adjusted final list by signing a confirmation letter once or by batches on or before the Delivery Date (Article 1.2 of the CDMA Business Disposal Agreement).

The CDMA Business Disposal Agreement also sets out the detailed principles and arrangements on the identification, determination, segregation, verification and transfer mechanism for each type of assets that constitutes the CDMA Business. In addition, as provided for under the CDMA Business Disposal Agreement, CUCL and Telecom and their respective affiliated companies have also entered into a number of ancillary agreements in relation to the detailed arrangements with respect to the disposal of the

CDMA Business, including an Employee Arrangement Agreement on the transfer of certain employees (Article 1.3 of the CDMA Business Disposal Agreement).

(c) Consideration

Pursuant to the CDMA Business Disposal Agreement, the consideration for the CDMA Business (the “Consideration”) remains unchanged from the CDMA Business Framework Agreement and is RMB43.8 billion (approximately HK\$50.1 billion), which is subject to adjustment in accordance with the price adjustment mechanism as set out below:

Adjusted consideration equals the Consideration as agreed in the CDMA Business Disposal Agreement multiplied by “A”, where:

R1 represents the CDMA service revenue for the six months ended June, 30 2008 to be disclosed in the 2008 interim report of Unicom; and

R2 represents the CDMA service revenue for the six months ended June 30, 2007 disclosed in the 2007 interim report of Unicom,

provided that:

If $(R1/R2 + 0.02) \geq 1$, then $A = 1$; and

If $(R1/R2 + 0.02) < 1$, then $A = (R1/R2 + 0.02)$

The Consideration was reached through arm’s length negotiations and determined after taking into account various relevant industry and market factors as well as the specific characteristics of the business and assets of the CDMA Business being disposed, including the operating capabilities and operating potential of the CDMA Business, their growth prospects, earnings potential, competitive advantages in their respective markets and their prospective profit contributions to Telecom, as well as by reference to other financial and operational factors (Article 2.2 of the CDMA Business Disposal Agreement).

The Consideration will be paid in instalments as follows. The first instalment, being 70% of the Consideration, is payable in cash on the Completion Date or within three days after the Completion Date. The second instalment, being 20% of the Consideration, is payable in cash within three days after the Delivery Date. The Delivery Date will take place within 60 days after the Completion Date or be such other date as agreed between the parties. The final instalment, being the remaining 10% of the Consideration, is payable in cash before March 31, 2009 (the “Final Date”) (Article 2.3 of the CDMA Business Disposal Agreement).

Following the signing of the CDMA Business Disposal Agreement, Telecom will continue to conduct due diligence on the CDMA service revenue of Unicom for the period from January to June of each of 2007 and 2008 in accordance with an agreed plan. Such due diligence will be completed within ten days after the date of the CDMA Business Disposal Agreement (Article 2.2 of the CDMA Business Disposal Agreement).

(d) Conditions

The conditions on which Unicom, CUCL and Telecom will complete the disposal of the CDMA Business (the “CDMA Business Conditions”) are as follows:

- (1) there being no material adverse change to the operation of the CDMA Business (Article 3.1(1) of the CDMA Business Disposal Agreement);

- (2) the representations and warranties made by Unicom and CUCL on the date of the CDMA Business Disposal Agreement remaining true, accurate and complete, and are not misleading, inaccurate or incomplete in all material aspects (Article 3.1(2) of the CDMA Business Disposal Agreement);
- (3) the disposal of the CDMA Business having been approved by Unicom shareholders (other than China Unicom (BVI) Limited and its associates) in accordance with applicable laws, regulations and listing rules, and the Transfer Agreement between China United Telecommunications Corporation Limited (“Unicom A Share Company”) and CUCL, dated July 27, 2008, having been approved by independent Unicom shareholders (Article 3.1(3) of the CDMA Business Disposal Agreement);
- (4) the disposal of the CDMA Business having been approved by the shareholders of Unicom A Share Company in accordance with applicable laws, regulations and listing rules, and the Option Waiver and Lease Termination Agreement among China United Telecommunications Corporation (“Unicom Group”), Unicom New Horizon Mobile Telecommunications Company Limited (“Unicom New Horizon”) and Unicom A Share Company, dated July 27, 2008, having been approved by the non-affiliated shareholders of Unicom A Share Company (Article 3.1(4) of the CDMA Business Disposal Agreement);
- (5) the disposal of the CDMA Business having been approved by CUCL in accordance with applicable laws and regulations (Article 3.1(5) of the CDMA Business Disposal Agreement);
- (6) the necessary procedures required by applicable laws and/or required by the binding agreements or documents of CUCL (including relevant announcement/notice procedures in relation to creditors or obtaining creditors’ consents) having been performed in accordance with the requirements of the completion plan as set out in the CDMA Business Disposal Agreement (Article 3.1(6) of the CDMA Business Disposal Agreement);
- (7) the amendments to the articles of association and the changes of the business scope of Telecom having been approved by Telecom shareholders in accordance with applicable laws, regulations and listing rules, and the Telecom CDMA Lease between Telecom and China Telecommunications Corporation (“Telecom Group”), dated July 27, 2008, and other connected transaction agreements (which require amendments as a result of Telecom’s purchase of the CDMA Business) having been approved by independent Telecom shareholders (Article 3.1(7) of the CDMA Business Disposal Agreement);
- (8) all authorizations in connection with the operation of the CDMA Business having been obtained by Telecom and Telecom Group, which shall include, but are not limited to, the approval of the Ministry of Industry and Information Technology for Telecom Group to license to Telecom the operation of a mobile telecommunications business and to use the relevant telecommunications resources, such as CDMA spectrum and telecommunications network numbers (Article 3.1(8) of the CDMA Business Disposal Agreement);
- (9) all authorizations in connection with the CDMA Business Disposal Agreement and the CDMA Network Disposal Agreement among Unicom Group, Unicom New Horizon and Telecom Group, dated July 27, 2008, having been obtained from the relevant governmental and regulatory authorities in the PRC and any other relevant jurisdiction

and such authorizations remaining in full force and effect without modification (Article 3.1(9) of the CDMA Business Disposal Agreement);

- (10) (a) there being no dispute between CUCL and Telecom on the progress of the completion preparatory work, and (b) detailed agreements in relation to the implementation of the transactions contemplated under the CDMA Business Disposal Agreement having been entered into by the corresponding provincial branches (including branches of autonomous regions and municipalities directly under the central government) of CUCL and Telecom before August 15, 2008 (Article 3.1(10) of the CDMA Business Disposal Agreement); and
- (11) the business and assets identification and specific revenue due diligence having been completed in accordance with the CDMA Business Disposal Agreement and the results of such identification and due diligence having been jointly confirmed by CUCL and Telecom (Article 3.1(11) of the CDMA Business Disposal Agreement).

For the purpose of paragraph (1) above, there is a “material adverse change” if there occurs a single event which results in a loss to the operation of the CDMA Business of RMB300 million or above or there occur events which in aggregate result in a loss to the operation of the CDMA Business of RMB1 billion or above.

Each of Unicom, CUCL and Telecom will use its respective reasonable endeavours to procure the satisfaction of the CDMA Business Conditions as soon as practicable before October 1, 2008. Once the CDMA Business Conditions set out above are satisfied or waived (satisfaction of the conditions under (1) to (6) is to be procured by CUCL and Unicom, satisfaction of the conditions under (7) and (8) is to be procured by Telecom and satisfaction of the conditions under (9) to (11) is to be jointly procured by CUCL, Unicom and Telecom), completion of the disposal of the CDMA Business will take place on the Completion Date (Article 3.1 and 3.2 of the CDMA Business Disposal Agreement).

If not all of the CDMA Business Conditions are satisfied or waived (as applicable) on or before December 31, 2008 (or such other date as Unicom, CUCL and Telecom may agree), the CDMA Business Disposal Agreement will automatically terminate (other than certain provisions which shall survive after the termination of the CDMA Business Disposal Agreement). In this case, no party (or its affiliated companies) shall make any claim against another party (or its affiliated companies) under the CDMA Business Disposal Agreement, unless such claim is based on the rights or obligations incurred prior to the termination of the CDMA Business Disposal Agreement or under the survived provisions of the CDMA Business Agreement (Article 3.3 of the CDMA Business Disposal Agreement).

(e) Other Key Terms of the CDMA Business Disposal Agreement

(1) Pre-Completion Date Undertakings

Each of CUCL and Unicom undertakes to Telecom that before the Completion Date (Article 4 of the CDMA Business Disposal Agreement):

- (i) it will not make any material change to the usual operation policies of the CDMA Business (including, but not limited to, the operation, sales, usual pricing procedures and policies of the CDMA Business) (Article 1.1(1) of Exhibit 5 to the CDMA Business Disposal Agreement);
- (ii) it will not make any material change to the usual financial policy of the CDMA Business and will take all necessary and effective measures to ensure the execution of the usual

financial policy (Articles 1.1(2) and (6) of Exhibit 5 to the CDMA Business Disposal Agreement)'

- (iii) it will actively maintain the CDMA subscriber base, and will develop the subscriber base in accordance with its usual sales practice (Article 1.3 of Exhibit 5 to the CDMA Business Disposal Agreement);
- (iv) it will maintain the normal operations of the CDMA Business and will ensure that services at the usual standards will be provided to the CDMA subscribers (Articles 1.2 and 1.4 of Exhibit 5 to the CDMA Business Disposal Agreement);
- (v) it will not enter into any contract involving the CDMA Business with a value in excess of RMB20 million, or make any investment or dispose of the relevant assets and liabilities in connection with the CDMA Business with an amount exceeding RMB20 million (Articles 1.1(3), (4) and (5) of Exhibit 5 to the CDMA Business Disposal Agreement);
- (vi) it will provide all necessary assistance to enable Telecom to identify the assets that are within the scope of the CDMA Business and will complete the completion preparatory work in accordance with the completion plan as set out in the CDMA Business Disposal Agreement (Article 1.5 of Exhibit 5 to the CDMA Business Disposal Agreement);
- (vii) it will allow Telecom access to, among others, the computer rooms and sales offices for inspection that are within the scope of the CDMA Business and will provide other information and records relating to the CDMA Business (Articles 1.6 and 1.7 of Exhibit 5 to the CDMA Business Disposal Agreement);
- (viii) it will notify Telecom and consult with Telecom on any events or circumstances that may have a material adverse effect on the CDMA Business (Article 1.8 of Exhibit 5 to the CDMA Business Disposal Agreement); and
- (ix) it will maintain and will not make any material change to the information technology supporting systems which record the CDMA subscribers' rights and liabilities attributable to the CDMA Business before (and excluding) the Completion Date (Article 1.9 of Exhibit 5 to the CDMA Business Disposal Agreement).

(2) Completion Date and Delivery Date

On and after the Completion Date, the CDMA Business shall become legally owned by Telecom. Unless Unicom, CUCL and Telecom otherwise agree, any right, interest, obligation and liability in relation to the CDMA Business before the Completion Date will be borne by CUCL; and on and after the Completion Date, any right, interest, obligation or liability in relation to the CDMA Business will be borne by Telecom. Since delivery of the CDMA Business will be completed by batches commencing from the Completion Date, with regard to certain detailed items of the CDMA Business to be transferred to Telecom, CUCL has agreed to hold such assets in good faith or as otherwise requested by Telecom on a fair and reasonable basis (Article 5.2 of the CDMA Business Disposal Agreement).

CUCL and Telecom have agreed to ensure that until the Completion Date, the services provided to the CDMA subscribers, service capabilities and network operating conditions will not be materially affected. (Article 1.2 of Exhibit 3 to the CDMA Business Disposal Agreement)

CUCL and Telecom have also agreed to cooperate with each other, within 60 days after the Completion Date, to complete the relevant procedures and take the relevant actions in accordance with certain methods and standards as set out in the CDMA Business Disposal Agreement to effect delivery of

certain detailed items of the CDMA Business as agreed in the final list on or before the Delivery Date, including, but not limited to, subscribers, cash items, fixed and other assets, business platform, information technology supporting systems, land use rights, information and data of CDMA subscribers, files, vehicles, intellectual property rights, contracts and value-added business platform, as set out in the CDMA Business Disposal Agreement (Article 5.4 of the CDMA Business Disposal Agreement).

Any assets or liabilities, which form part of the CDMA Business but the transfer of which has not been completed by the Delivery Date, will be governed by the completion plan as set out in the CDMA Business Disposal Agreement (Article 5.5 of the CDMA Business Disposal Agreement).

After the Completion Date and before the actual delivery of certain items of the CDMA Business set out in the final list, CUCL will indemnify or compensate Telecom for any loss or damage on such items. After actual delivery of the items of the CDMA Business set out in the final list, CUCL will have to exchange such items with material defects, or indemnify Telecom for any material defect of such items, arising from activities conducted before the Completion Date (Article 5.6 of the CDMA Business Disposal Agreement).

(3) Transitional Period Arrangements

CUCL, Unicom and Telecom have agreed on the principles in relation to the arrangements during the transitional period, which starts from the Completion Date and ends not later than the Final Date, including, amongst others, preservation of operating conditions, customer and financial services as necessary, and reciprocal use of the information technology system and the value-added service platform during the transitional period (Article 1 of Exhibit 4 to the CDMA Business Disposal Agreement).

In relation to CDMA/GSM dual mode services, CUCL, Unicom and Telecom have agreed to cease the development of new customers for such services but will maintain the services provided to the existing CDMA/GSM dual mode customers. Telecom may develop international CDMA/GSM dual mode services to customers and may do so with CUCL and Unicom on terms to be agreed. (Article 3.7 of Exhibit 4 to the CDMA Business Disposal Agreement)

(4) Jointly Used Assets

After completion of the disposal of the CDMA Business, CUCL and Telecom will each own certain assets which are relevant to both the CDMA Business and/or network and the other business or network of CUCL. In order to ensure the normal operation of the business and to maintain the quality of services provided to subscribers, CUCL and Telecom will enter into separate agreement(s) with respect to the operation of such assets in accordance with the principles set out in the CDMA Business Disposal Agreement (Article 7 of the CDMA Business Disposal Agreement).

(5) Joint Working Committee

The joint working committee that was established before the date of the CDMA Business Disposal Agreement will continue to perform its obligations agreed by the relevant parties to ensure the smooth operation and transfer of the CDMA Business by the Final Date (Article 8 of the CDMA Business Disposal Agreement).

(6) Representations and Warranties

- (i) In the CDMA Business Disposal Agreement, CUCL has made certain representations and warranties in relation to, amongst others, the license and authorization to operate the CDMA Business, the legal ownership of the CDMA Business, the business operation and financial information in relation to the CDMA Business, the consistency of the

amortization policies and methods adopted by CUCL in connection with deferred handset subsidies, the information/data of the CDMA customers, insurance, intellectual property and information technology rights, third party contracts, employees, material litigation and investigations, taxation and legal compliance. In addition, CUCL has represented that its execution of the CDMA Business Disposal Agreement will not violate (a) any organizational and related documents, applicable laws, regulations or rules or (ii) material contracts, agreements or permissions or orders, rules or decrees of courts, government departments or supervisory authorities (Article 9 of the CDMA Business Disposal Agreement).

- (ii) In the CDMA Business Disposal Agreement, Unicom has made certain representations and warranties, amongst others, that the information provided by CUCL to Telecom and the representations and warranties made by CUCL are true, complete and accurate. Unicom has further guaranteed all the obligations, liabilities and indemnities of CUCL under the CDMA Business Disposal Agreement. In addition, Unicom has represented that its execution of the CDMA Business Disposal Agreement will not violate (a) any organizational and related documents, applicable laws, regulations or rules or (ii) material contracts, agreements or permissions or orders, rules or decrees of courts, government departments or supervisory authorities (Article 10 of the CDMA Business Disposal Agreement).
- (iii) In the CDMA Business Disposal Agreement, Telecom has made certain representations and warranties in relation to, amongst others, its valid and legal incorporation and existence under the PRC law and its having readily available cash to pay each instalment of the Consideration on the respective due date. In addition, Telecom has represented that its execution of the CDMA Business Disposal Agreement will not violate (a) any organizational and related documents, applicable laws, regulations or rules or (ii) material contracts, agreements or permissions or orders, rules or decrees of courts, government departments or supervisory authorities (Article 11 of the CDMA Business Disposal Agreement).

All the representations and warranties were made on the date of signing of the CDMA Business Disposal Agreement and are to be repeated on the Completion Date, the Delivery Date and the date of payment of the final instalment of the Consideration (Articles 9.1, 10.1 and 11.1 of the CDMA Business Disposal Agreement).

(7) Non Waiver or Termination

Unless otherwise provided in the CDMA Business Disposal Agreement, none of the parties has the right to waive or terminate the CDMA Business Disposal Agreement under any circumstances (whether prior to or after the Completion Date) (Article 12 of the CDMA Business Disposal Agreement).

(8) Indemnity

As provided in the CDMA Business Disposal Agreement, any false, inaccurate or incomplete representation and/or warranty, any misleading representation or omission, or breach of any undertaking or any clause under the CDMA Business Disposal Agreement will constitute a breach of the CDMA Business Disposal Agreement, in which case the party in breach is required to indemnify the other party in accordance with the CDMA Business Disposal Agreement (Article 13.1 of the CDMA Business Disposal Agreement).

CUCL has agreed to indemnify Telecom against any actual loss suffered by Telecom as a result of any actual or potential disputes, claims or litigation in connection with the CDMA Business existing or

taking place prior to (and excluding) the Completion Date, or as a result of such activities, conducted prior to (and excluding) the Completion Date. Such indemnity shall be paid within fifteen (15) working days after it is confirmed (Article 13.2 of the CDMA Business Disposal Agreement).

CUCL and Unicom have agreed to use their best effort to notify Telecom in writing within reasonable time after they realize that the occurrence of certain events would make any representation or warranty regarding the assets or business of the CDMA Business false, inaccurate or misleading (Article 13.3 of the CDMA Business Disposal Agreement).

Telecom has agreed to use its best effort to notify CUCL and Unicom in writing within reasonable time after it becomes aware of potential disputes, claims or litigation against it and any right to seek compensation from CUCL and Unicom under the CDMA Business Disposal Agreement (Article 13.4 of the CDMA Business Disposal Agreement).

CUCL's failure to satisfy the CDMA Business Conditions or to complete the disposal of the CDMA Business by the required date may result in a default payment having to be made by CUCL under the CDMA Business Disposal Agreement. Telecom's failure to make any payment pursuant to the CDMA Business Disposal Agreement on the respective due date may result in a late payment fine having to be made by Telecom under the CDMA Business Disposal Agreement (Articles 13.5 and 13.6 of the CDMA Business Disposal Agreement).

(9) Third-Party Claim

In disputes and claims that occur on or after the Completion Date as a result of activities conducted prior to (and excluding) the Completion Date, if Telecom becomes aware of potential disputes, claims or litigation against it from third-parties and any right to seek compensation from CUCL under the CDMA Business Disposal Agreement, Telecom shall, unless otherwise provided in the CDMA Business Disposal Agreement:

- (i) notify CUCL of the claims by third-parties within reasonable time and provide CUCL and its representatives with reasonable information and assistance (Article 14.1(1) of the CDMA Business Disposal Agreement);
- (ii) not make any admission of fault to, enter into any agreement with or make any resolution with third-parties without prior written consent from CUCL. If CUCL does not give written consent within fifteen (15) working days after it receives such notification, CUCL shall be deemed to have given such consent and Telecom shall have the right to make admission of fault to, enter into agreements with or make resolutions with third-parties (Article 14.1(2) of the CDMA Business Disposal Agreement); and
- (iii) (a) take reasonable steps requested by CUCL to avoid, refuse or question the claims made by third-parties or resolve, defend or appeal such claims; (b) allow CUCL to take over all legal procedures and/or negotiation with respect to such third-party claims to the extent permitted by law; and (c) provide reasonable information and assistance (if necessary) requested by CUCL on the preparation for or conduct of such legal procedures and/or negotiation, with all of the forgoing on the condition that CUCL will reimburse Telecom's reasonable expenses (Article 14.1(3) of the CDMA Business Disposal Agreement).

Part III — Omitted Terms

The following is a description of the terms of the CDMA Business Disposal Agreement that have been omitted from the summary above:

- (a) Article 2.4 of the CDMA Business Disposal Agreement provides the details of the bank account to which payments shall be transferred.
- (b) Article 2.5 of the CDMA Business Disposal Agreement provides that payments shall be made in cash which is immediately available for use and by wire transfers.
- (c) Article 5.7 of the CDMA Business Disposal Agreement provides that, on the Completion Date, CUCL and Telecom shall provide the legal opinions of their respective PRC counsels on the satisfaction of conditions to and legality of the disposal of the CDMA Business.
- (d) Article 5.8 of the CDMA Business Disposal Agreement provides that the party who deliberately or negligently causes the failure of the disposal or operations of the CDMA Business shall bear the liability accordingly.
- (e) Article 15 of the CDMA Business Disposal Agreement provides that none of the parties shall make any announcement or circular without prior written consent from the other parties. This provision does not apply if such announcements and/or circulars are required by stock exchanges or other supervisory authorities.
- (f) Article 16 of the CDMA Business Disposal Agreement describes each party's duties of confidentiality and exceptions from such duties.
- (g) Article 17 of the CDMA Business Disposal Agreement provides that, unless provided for under the CDMA Business Disposal Agreement or by written consents from all parties, none of the parties shall transfer, sell, mortgage or dispose of by other means any of its rights under the CDMA Business Disposal Agreement.
- (h) Article 18 of the CDMA Business Disposal Agreement provides that each party shall execute all other agreements that may be necessary for the implementation of the CDMA Business Disposal Agreement.
- (i) Article 19 of the CDMA Business Disposal Agreement sets forth the principals governing the taxes and expenses to be born by each party.
- (j) Article 20 of the CDMA Business Disposal Agreement sets forth the proper methods for notification and each party's contact information.
- (k) Article 21 of the CDMA Business Disposal Agreement sets forth the principles of resolving conflicts between the CDMA Business Disposal Agreement and other agreements.
- (l) Article 22 of the CDMA Business Disposal Agreement provides that, unless otherwise provided, any party's failure to exercise or delay in exercising any right shall not be deemed as a waiver of such right.
- (m) Article 23 of the CDMA Business Disposal Agreement provides that the CDMA Business Disposal Agreement shall be signed in sixteen (16) copies with each party having four (4) copies. The other copies shall be used for approval from and/or registration with governmental departments.
- (n) Article 24 of the CDMA Business Disposal Agreement provides that the CDMA Business Disposal Agreement shall become effective upon signing and stamping of seals by the representative of each party. Any revision shall be made in writing and signed and stamped with seals by the representative of each party.

- (o) Article 25 of the CDMA Business Disposal Agreement provides that each article of the CDMA Business Disposal Agreement and other related transactional documents is severable.
- (p) Article 26 of the CDMA Business Disposal Agreement provides that the CDMA Business Disposal Agreement is governed by PRC laws and shall be interpreted in accordance with PRC laws. The article also sets forth the dispute resolution procedure.
- (q) Article 27 of the CDMA Business Disposal Agreement sets forth the duration of CUCL and Unicom's representations and warranties (which survive the disposal of the CDMA business) and steps to be taken in the events of force majeure.
- (r) Exhibit 1 to the CDMA Business Disposal Agreement sets forth the definitions used in the CDMA Business Disposal Agreement.
- (s) Exhibit 2 to the CDMA Business Disposal Agreement sets forth the detailed scope of the CDMA Business.
- (t) Exhibit 3 to the CDMA Business Disposal Agreement sets forth detailed plan for the disposal of the CDMA Business.
- (u) Exhibit 4 to the CDMA Business Disposal Agreement sets forth the principles in relation to the arrangements during the transitional period.
- (v) Exhibit 6 to the CDMA Business Disposal Agreement sets forth the detailed representations and warranties made by CUCL.

Dated 12 September 2005

CHINA NETCOM GROUP CORPORATION (BVI) LIMITED
CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
CONDITIONAL SALE AND PURCHASE
AGREEMENT

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THIS AGREEMENT is made on 12 September 2005

BETWEEN:

- (1) **CHINA NETCOM GROUP CORPORATION (BVI) LIMITED** a company incorporated under the laws of the British Virgin Islands whose registered office is at P.O. Box 3140, Wickhams Cay I, Road Town, Tortola, British Virgin Islands (the “**Vendor**”);
- (2) **CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED** a company incorporated under the laws of Hong Kong whose registered office is at 46th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong (the “**Purchaser**”); and
- (3) **CHINA NETWORK COMMUNICATIONS GROUP CORPORATION** a company incorporated under the laws of the PRC whose registered office is at Building C, No. 156 Fuxingmennei Avenue, Xicheng District, Beijing, PRC (the “**Warrantor**”).

WHEREAS:

- (A) China Netcom Group New Horizon Communications Corporation (BVI) Limited (the “**Target BVI Company**”) is a private company limited by shares incorporated on 27 July 2005 in the British Virgin Islands. The details of the Target BVI Company are set out in Part A of Schedule 1. The Target BVI Company is the sole beneficial owner of China Netcom Group New Horizon Communications Corporation Limited () (the “**Target Company**”) and shall, in each case if the context so requires, include any predecessor entity or person carrying on its business, whether before or after the Restructuring). The details of the Target Company are set out in Part B of Schedule 1.
- (B) The Vendor is the sole legal and beneficial owner of the entire issued share capital of the Target BVI Company.
- (C) The Warrantor has effected certain reorganisation in relation to its fixed-line telecommunications assets and businesses in the Target Regions and such assets and businesses were transferred to the Target Company. The Target Company became a wholly-owned subsidiary of the Target BVI Company through certain transfers pursuant to an Equity Interest Injection Agreement (the “**Restructuring**”).
- (D) The Vendor has agreed to sell, and the Purchaser has agreed to buy, the entire issued share capital of the Target BVI Company upon the terms and conditions set out in this Agreement.
- (E) The Vendor and the Warrantor have agreed to make certain representations, warranties and undertakings in relation to the Target Group and have agreed to provide certain tax indemnity to the Purchaser.

IT IS AGREED as follows:

1 INTERPRETATION

1.1 In this Agreement, the following expressions shall have the following meanings:

“**Accounts**” means in relation to the Target Company:

- (a) the audited balance sheets of the Target Company as of the relevant Accounts Date; and

(b) the audited statements of income, owner's equity and cash flows of the Target Company for the financial period ended on the relevant Accounts Date,

together with any notes, reports or statements included in or annexed to them;

“**Accounts Date**” means 31 December 2002, 2003 or 2004 or 30 June 2005 (as the case may be);

“**Appraisal Report**” means the appraisal report prepared by PRC appraisers in respect of the Target Company;

“**Business Day**” means a day (excluding Saturdays) on which banks generally are open in Hong Kong and the PRC for the transaction of normal banking business;

“**Circular**” means the shareholders' circular to be issued by the Purchaser to its shareholders and containing, among other things, the details of the acquisition contemplated under this Agreement;

“**Claim**” means any claim for breach of a Warranty;

“**Combined Group**” means the Purchaser, its existing subsidiaries and the Target Group;

“**Companies Ordinance**” means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;

“**Completion**” means completion of the sale and purchase of the Target BVI Shares under this Agreement pursuant to Clause 5;

“**Conditions Precedent**” means the conditions specified in Clause 3.1;

“**Continuing Connected Transactions**” means on-going transactions between any member of the Vendor Group Company and the Combined Group which fall within the definition of “continuing connected transactions” under the Listing Rules and those transactions are to be effected pursuant to the agreements as listed in the Appendix;

“**Costs**” means liabilities, losses, damages, costs (including legal costs) and expenses (including taxation), in each case of any nature whatsoever;

“**Deferred Consideration**” means RMB 9,800,000,000, being the balance of the Total Price after payment of the Initial Consideration, which is calculated in accordance with Clause 2.2.2;

“**Deferred Consideration Interest Rate**” means the rate of 5.265% per annum, being 10 per cent. discount to the Renminbi lending rate of 5.85% per annum of commercial banks in the PRC in respect of loans with tenure of five years as published by the People's Bank of China prevailing at 12:00 noon (Beijing time) on 8 September 2005, being two Business Days immediately preceding the date of this Agreement;

“**Encumbrance**” means any claim, charge, mortgage, security, lien, option, equity, power of sale, hypothecation or third party rights, retention of title, right of pre-emption, right of first refusal or security interest of any kind;

“**Equity Interest Injection Agreement**” means the equity interest injection agreement among the Warrantor, the Vendor and the Target BVI Company pursuant to which the entire equity interest in the Target Company was injected from the Warrantor to the Vendor and then from the Vendor to the Target BVI Company;

“**Financial Statements**” means the audited balance sheets of the Target Company as of 31 December 2002, 2003 and 2004 and as of 30 June 2005, and the related statements of income, owner’s equity and cash flows for each of the years in the three-year period ended 31 December 2004 and for the six-month period ended 30 June 2005;

“**holding company**” shall be construed in accordance with section 2 of the Companies Ordinance;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC;

“**HK\$**” or “**HK dollars**” means Hong Kong dollars, the lawful currency of Hong Kong;

“**Indebtedness**” means any indebtedness in respect of all obligations to repay borrowed money, all indebtedness evidenced by notes, bonds, loan stock, debentures or similar obligations, acceptances or documentary credit facilities, all rental obligations under finance leases, and hire purchase contracts, any other transaction having the commercial effect of a borrowing or raising of money, the net amount of any liability under any swap, hedging or other similar treasury instrument, and all guarantees, sureties, indemnities, counter-indemnities or letters of comfort of obligations of others of the foregoing types;

“**Independent Shareholders**” means the holders of Shares other than the Vendor and its Associates (as defined in the Listing Rules);

“**Initial Consideration**” means such part of the Total Price to be paid by the Purchaser to the Vendor on Completion in accordance with Clause 2.2.1;

“**Intellectual Property Rights**” means patents, trade marks, service marks, trade names, design rights, copyright (including rights in computer software), rights in know-how and other intellectual property rights, in each case whether registered or unregistered and including applications for the grant of any such rights and all rights or forms of protection having equivalent or similar effect anywhere in the world;

“**Intra-Group Guarantees**” means all guarantees, indemnities, counter-indemnities and letters of comfort of any nature whatsoever (a) given to any third party by any member of the Target Group in respect of a liability of any Vendor Group Company, and/or (as the context may require) (b) given to any third party by any Vendor Group Company in respect of a liability of any member of the Target Group;

“**Intra-Group Loans**” means all debts outstanding between any member of the Target Group and any Vendor Group Company;

“**Last Accounts**” means the Accounts of the Target Company in respect of the financial period ended on the Last Accounts Date;

“**Last Accounts Date**” means 30 June 2005;

“**Listing Rules**” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

“**Payment Date**” means, before the payment of the Deferred Consideration and any unpaid accrued interest thereon in full, each of the following dates (or if that date falls on a non-Business Day, then on the next Business Day): 30 April 2006, 31 October 2006, 30 April 2007, 31 October 2007, 30 April 2008, 31 October 2008, 30 April 2009, 31 October 2009, 30 April 2010 and 31 October 2010;

“**PRC**” means the People’s Republic of China;

“**PRC Relevant Governmental Approvals**” means the approvals, consents and authorisations from all relevant regulatory authorities in the PRC including, but not limited to, the State-owned Assets Supervision and Administration Commission, the National Development and Reform Commission, the Ministry of Information Industry, the Ministry of Commerce, the Ministry of Land and Resources and the China Securities Regulatory Commission, which are necessary to effect the transactions contemplated by the Reorganisation Agreement and this Agreement;

“**Properties**” means the properties and land use rights stated in the Property Legal Opinions that are owned by the Target Company;

“**Property Legal Opinions**” means the legal opinions to be issued by Haiwen & Partners, PRC counsel for the purposes of the acquisition contemplated hereunder in relation to the properties and land use rights owned by the Target Company;

“**Reorganisation Agreement**” means the reorganisation agreement dated 9 August 2005 between the Warrantor and the Target Company pursuant to which the Warrantor injected all interests, assets, liabilities, personnel and businesses in relation to the Warrantor’s fixed-line telecommunications services in the Target Regions to the Target Company;

“**RMB**” or “**Renminbi**” means Renminbi, the lawful currency of the PRC;

“**Schedules**” means Schedules 1 and 2 to this Agreement and Schedule shall be construed accordingly;

“**Shares**” means ordinary shares of par value US\$0.04 each in the share capital of the Purchaser;

“**subsidiary**” and “**subsidiaries**” shall be construed in accordance with section 2 of the Companies Ordinance;

“**Target Assets**” means the fixed-line telecommunications assets and related liabilities (other than the international gateway and related international network assets, as well as the inter-provincial fiber-optic network and related assets and liabilities) that are owned by or associated with the Target Company in the Target Regions and are more particularly described in the Reorganisation Agreement;

“**Target Regions**” means Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province;

“**Target BVI Shares**” means all the issued shares in the capital of the Target BVI Company;

“**Target Group**” means the Target BVI Company and the Target Company;

“**Total Price**” means RMB 12,800,000,000, being the total price payable by the Purchaser to the Vendor for the Target BVI Shares;

“**US\$**” or “**US dollars**” means United States dollars, the lawful currency of the United States of America;

“**Vendor Group Company**” means the Vendor, the Warrantor, any holding company from time to time of the Vendor (including the Warrantor) and any subsidiary from time to time of the Vendor or any of its holding company (but excluding the Purchaser, any of the Purchaser’s subsidiaries, and the Target Group); and

“**Warranties**” means the representations and warranties set out in Schedule 2.

1.2 In this Agreement, unless the context otherwise requires:

- (a) references to persons shall include individuals, bodies corporate (wherever incorporated), unincorporated associations and partnerships;
- (b) the headings are inserted for convenience only and shall not affect the construction of this Agreement;
- (c) references to one gender include all genders;
- (d) any reference to an enactment or statutory provision is a reference to it as it may have been, or may from time to time be, amended, modified, consolidated or re-enacted;
- (e) any statement qualified by the expression “to the best knowledge of the Vendor and the Warrantor” or “so far as the Vendor and the Warrantor are aware” or any similar expression shall be deemed to include an additional statement that it has been made after due and careful enquiry and shall be deemed also to include the best of the knowledge of each Vendor Group Company;
- (f) any reference to a document in the agreed form is to the form of the relevant document agreed between the parties and for the purpose of identification initialed by each of them or on their behalf (in each case with such amendments as may be agreed by or on behalf of the Vendor and the Purchaser); and
- (g) references to any Hong Kong legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any other legal concept shall, in respect of any jurisdiction other than Hong Kong, be deemed to include the legal concept which most nearly approximates in that jurisdiction to the Hong Kong legal term.

1.3 The Schedules and Appendix comprise schedules and appendix to this Agreement and form part of this Agreement.

2 SALE OF THE TARGET BVI SHARES AND TOTAL PRICE

2.1 The Vendor agrees to sell as legal and beneficial owner, and the Purchaser agrees to purchase, the Target BVI Shares. The Target BVI Shares shall be sold free from all Encumbrances, together with all rights attaching to them.

- 2.2** The consideration for the purchase of the Target BVI Shares shall be the Total Price of RMB 12,800,000,000, which shall be satisfied by the payment of the Initial Consideration and the Deferred Consideration by the Purchaser in accordance with Clauses 2.2.1 and 2.2.2 respectively.
- 2.2.1 On Completion, the Purchaser or at the discretion of the Purchaser, any of its subsidiaries, shall pay to the Vendor or such entity as designated by the Vendor at least two Business Days immediately prior to the date of Completion the Initial Consideration of RMB 3,000,000,000 in cash, in Renminbi.
- 2.2.2 The Deferred Consideration shall be RMB 9,800,000,000, which is equivalent to the Total Price after deduction of RMB 3,000,000,000 as stated in Clause 2.2.1.
- 2.3** Without prejudice to the provisions in Clause 2.6, the Vendor and the Purchaser agree that on each Payment Date, the Purchaser or at the discretion of the Purchaser, any of its subsidiaries, shall pay the Vendor or such entity as designated by the Vendor at least two Business Days immediately prior to the relevant Payment Date RMB 980,000,000 plus interest accrued on the unpaid portion of the Deferred Consideration as calculated in accordance with Clause 2.4 and that the Deferred Consideration or the unpaid portion of the Deferred Consideration, together with unpaid accrued interest thereon, shall be paid in full on or before 31 October 2010, or if that date falls on a non-Business Day, then on the next Business Day.
- 2.4** The Purchaser shall pay interest to the Vendor on the Deferred Consideration. Interest shall accrue daily at the Deferred Consideration Interest Rate on the unpaid portion of the Deferred Consideration from the date of Completion until full payment of the Deferred Consideration, and shall be calculated on the basis of a year of 360 days. Interest shall be paid on each Payment Date and on the day on which the Deferred Consideration is paid in full.
- 2.5** The Purchaser may make payment under Clauses 2.3 and 2.4 in Renminbi or US dollars. Where payments are made in US dollars, the amounts of Deferred Consideration and accrued interest paid shall be determined using the Federal Reserve noon-buying rate between US dollars and Renminbi which is quoted as of 12:00 noon (New York City time) on the day which is two Business Days immediately prior to the relevant Payment Date on the relevant page on the website of the Federal Reserve Bank of New York (www.ny.frb.org) which displays the exchange rate between US dollars and Renminbi.
- 2.6** The Purchaser may make early payment of all or part of the Deferred Consideration after Completion and in any amount in Renminbi or US dollars, without any penalty. Where payments are made in US dollars, the amounts of Deferred Consideration paid shall be determined using the Federal Reserve noon-buying rate between US dollars and Renminbi which is quoted as of 12:00 noon (New York City time) on the day which is two Business Days immediately prior to the date of payment on the relevant page on the website of the Federal Reserve Bank of New York (www.ny.frb.org) which displays the exchange rate between US dollars and Renminbi.
- 2.7** If the Purchaser does not pay the Deferred Consideration or any accrued interest payable when due under Clauses 2.3 and 2.4, it shall pay interest on the overdue amount for the period beginning on its due date and ending on the date of its receipt by the Vendor (the “**Relevant Period**”). Interest under this Clause 2.7 shall accrue daily at the rate of the Deferred Consideration Interest Rate and calculated on the basis of a year of 360 days.

For the avoidance of doubt, the Purchaser's obligation to pay interest on the Deferred Consideration under and in accordance with Clause 2.4 is not affected by this Clause 2.7.

- 2.8** The transfer of the Target BVI Shares shall take effect immediately upon Completion and the Purchaser shall be entitled to enjoy all rights attached to the Target BVI Shares on Completion free from all Encumbrances irrespective of the Deferred Consideration payable by the Purchaser to the Vendor. The Vendor hereby irrevocably waives all rights, liens or other securities interest over the Target BVI Shares which the Vendor may have under law arising from the Deferred Consideration or otherwise with effect from Completion.

3 CONDITIONS PRECEDENT

- 3.1** Completion of the sale and purchase of the Target BVI Shares shall be conditional upon the fulfillment of the following conditions:
- (a) the passing of resolutions by the Independent Shareholders approving the transactions contemplated by this Agreement and the Continuing Connected Transactions which require the approval of the Independent Shareholders under the Listing Rules;
 - (b) there having been no material adverse change to the financial conditions, business operations or prospects of the Target Company;
 - (c) the receipt of the PRC Relevant Governmental Approvals; and
 - (d) the completion of the transactions contemplated in the Reorganisation Agreement and the Equity Interest Injection Agreement.
- 3.2** Each of the Vendor and the Warrantor undertakes to use all reasonable endeavours to ensure that the Conditions Precedent set out in Clauses 3.1(b), (c) and (d) are fulfilled as soon as reasonably practicable and in any event by 31 December 2005 or such later date as may be agreed between the parties.
- 3.3** The Purchaser undertakes to use all reasonable endeavours to ensure that the Conditions Precedent set out in Clause 3.1(a) is fulfilled as soon as reasonably practicable and in any event by 31 December 2005 or such later date as may be agreed between the parties.
- 3.4** The Purchaser shall be entitled in its absolute discretion, by written notice to the Vendor, to waive the Condition Precedent set out in Clause 3.1(b) either in whole or in part.
- 3.5** If any of the Conditions Precedent has not been fulfilled (or waived) on or before the date specified in Clauses 3.2 and 3.3 or such other date as the parties to this Agreement may agree in writing, this Agreement (other than Clauses 14, 16 and 22) shall automatically terminate and no party shall have any claim of any nature whatsoever against the other parties under this Agreement (save in respect of its accrued rights arising from any prior breach of this Agreement).

4 PRE-COMPLETION UNDERTAKINGS

4.1 Pending Completion, each of the Vendor and the Warrantor shall ensure that:

- (a) the Target Company shall carry on its business in the ordinary and usual course and shall not make (or agree to make) any payment other than payments in the ordinary and usual course of trading;
- (b) the Target Company shall take all reasonable steps to preserve and protect its assets;
- (c) the Purchaser's representatives shall be allowed, upon reasonable notice and during normal business hours, access to the books and records of each member of the Target Group (including, without limitation, all statutory books, minute books, leases, contracts, supplier lists and customer lists) together with the right to take copies;
- (d) no member of the Target Group shall do, allow or procure any act or omission which would constitute or give rise to a breach of any Warranty if the Warranties were to be repeated on or at any time before Completion by reference to the facts and circumstances then existing;
- (e) prompt disclosure is made to the Purchaser of all relevant information which comes to the notice of the Vendor or the Warrantor in relation to any fact or matter (whether existing on or before the date of this Agreement or arising afterwards) which may constitute a breach of any Warranty if the Warranties were to be repeated on or at any time before Completion by reference to the facts and circumstances then existing;
- (f) save for the distribution by the Target Company of its profits for the six-month period ended 30 June 2005 to its parent company, no dividend or other distribution shall be declared, paid or made by any member of the Target Group;
- (g) no share capital shall be allotted or issued or agreed to be allotted or issued by any member of the Target Group;
- (h) all transactions between each member of the Target Group and each Vendor Group Company shall be on arm's length commercial terms and in their respective ordinary and usual course of business;
- (i) otherwise than in the ordinary course of business, the amount of any Indebtedness owed by each member of the Target Group or existing as at the date of this Agreement shall not be increased or extended and no new Indebtedness shall be entered into or assumed by any such company; and
- (j) no action is taken by any member of the Target Group or any Vendor Group Company which is inconsistent with the provisions of this Agreement or the consummation of the transactions contemplated by this Agreement.

4.2 Pending Completion, each of the Vendor and the Warrantor shall ensure that the Target Group consults fully with the Purchaser in relation to any matters which may have a material effect upon the Target Group. Without the prior written consent of the Purchaser,

the Target Group shall not, and each of the Vendor and the Warrantor shall ensure that the Target Group does not:

- (a) enter into any contract or commitment (or make a bid or offer which may lead to a contract or commitment) having a material value or involving material expenditure or which is of a long term or unusual nature or which could involve an obligation of a material nature or which may result in any material change in the nature or scope of the operations of such member of the Target Group;
- (b) agree to any variation or termination of any existing contract to which that member of the Target Group is a party and which may have a material effect upon the nature or scope of the operations of such member of the Target Group;
- (c) (whether in the ordinary and usual course of business or otherwise) acquire or dispose of, or agree to acquire or dispose of, any material business or any material asset; or
- (d) enter into any agreement, contract, arrangement or transaction (whether or not legally binding) other than in the ordinary and usual course of business.

5 COMPLETION

5.1 The sale and purchase of the Target BVI Shares shall be completed at 46th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (or such other place as the Vendor, the Purchaser and the Warrantor may agree upon) on:

- (a) 31 October 2005, or
- (b) such other date as may be agreed between the Vendor, the Purchaser and the Warrantor,

whichever is later, following notification by the Purchaser to the Vendor of the fulfillment (or waiver) of all the Conditions Precedent.

5.2 On Completion, the Vendor shall deliver (or cause to be delivered) to the Purchaser:

- (a) duly executed transfers into the name of the Purchaser or such wholly-owned subsidiary of the Purchaser as notified by the Purchaser to the Vendor two days before Completion or their respective nominee in respect of all of the Target BVI Shares, together with the related share certificates evidencing the title and ownership of such shares;
- (b) the certificates of incorporation, common seal, share register, share certificate book (with any unissued share certificates), business licence, the documents evidencing the PRC Relevant Governmental Approvals (as the case may be) and all minute books and other statutory books (which shall be written up to but not including Completion) of each member of the Target Group;
- (c) all such other documents (including any necessary waivers of pre-emption rights or other consents) as may be required to enable the Purchaser and/or such wholly-owned subsidiary of the Purchaser as notified by the Purchaser to the Vendor two days before Completion and/or their respective nominee to be vested with the full beneficial ownership of the Target BVI Shares and to enable the

Purchaser and/or such wholly-owned subsidiary and/or their respective nominee to be registered as the holder(s) of the Target BVI Shares;

- (d) a copy of a resolution of the board of directors (certified by an officer of the Vendor duly appointed by the Vendor as true and correct) of the Vendor, authorising the execution of and the performance by the Vendor of its obligations under this Agreement and each of the other documents to be executed by the Vendor;
- (e) a certified copy of the Equity Interest Injection Agreement duly executed by each of the parties thereto; and
- (f) a legal opinion from Haiwen & Partners, PRC counsel, in form and substance acceptable to the Purchaser.

5.3 On Completion, the Warrantor shall deliver (or cause to be delivered) to the Purchaser all such other documents (including any necessary waivers of pre-emption rights or other consents) as may be required to enable the Purchaser and/or such wholly-owned subsidiary of the Purchaser as notified by the Purchaser to the Vendor two days before Completion and/or their respective nominee to be vested with the full beneficial ownership of the Target BVI Shares and to enable the Purchaser and/or such wholly-owned subsidiary and/or their respective nominee to be registered as the holder(s) of the Target BVI Shares.

5.4 On Completion, the Vendor shall procure that resolutions of the board of directors of the Target BVI Company are passed to approve the registration of the transfers in respect of the Target BVI Shares referred to in Clause 5.2.

5.5 Against compliance by the Vendor and the Warrantor of their respective obligations under Clauses 5.2, 5.3 and 5.4, the Purchaser shall:

- (a) in satisfaction of its obligations under Clause 2.2.1, cause the amounts set out in Clause 2.2.1 to be paid on Completion or such later date as may be agreed between the Vendor and the Purchaser by electronic funds transfer (or such other modes of payment as may be agreed between the Vendor and the Purchaser) to the bank account(s) of the Vendor or such other party as the Vendor may direct, details of which shall be notified in writing to the Purchaser at least two Business Days prior to Completion;
- (b) deliver to the Vendor a copy of the board minutes (certified by a duly appointed officer as true and correct) of the Purchaser authorising the execution and performance by the Purchaser of its obligations under this Agreement; and
- (c) deliver to the Vendor a copy of the resolutions (certified by a duly appointed officer as true and correct) by the Independent Shareholders approving the transactions contemplated by this Agreement and the Continuing Connected Transactions which require the approval of the Independent Shareholders under the Listing Rules.

5.6 If the Vendor or the Warrantor fails or is unable to perform any material obligations (including the transfer of all Target BVI Shares to the Purchaser and/or such wholly-owned subsidiary of the Purchaser and/or their respective nominee simultaneously upon Completion) required to be performed by the Vendor or the Warrantor (as the case may

be) pursuant to Clause 3.2, Clause 5.2 and Clause 5.3, respectively, by the last date on which Completion is required to occur, the Purchaser shall not be obliged to complete the sale and purchase of the Target BVI Shares and may, in its absolute discretion, by written notice to the Vendor and the Warrantor:

- (a) rescind this Agreement without liability on the part of the Purchaser; or
- (b) elect to complete this Agreement on that date, to the extent that the Vendor and the Warrantor are ready, able and willing to do so, and specify a later date on which the Vendor and the Warrantor shall be obliged to complete the outstanding obligations of the Vendor and the Warrantor; or
- (c) elect to defer the completion of this Agreement by not more than 90 days to such other date as it may specify in such notice, in which event the provisions of this Clause 5.6 shall apply, *mutatis mutandis*, if the Vendor and/or the Warrantor fails or is unable to perform any such obligations on such other date,

provided that Clause 5.6(b) will not apply where the Vendor is unable or fails to effect transfer of all Target BVI Shares to the Purchaser and/or such wholly-owned subsidiary of the Purchaser and/or their respective nominee simultaneously upon Completion.

- 5.7** Each of the Vendor and the Warrantor jointly and severally undertakes that it shall pay in cash to the Purchaser by way of indemnity all Costs which the Purchaser may suffer or incur and all Costs which the Purchaser has incurred in relation to the preparation and execution of this Agreement if the Vendor or the Warrantor breaches any of its obligations under this Agreement (including to effect the injection of all Target BVI Shares to the Purchaser and/or such wholly-owned subsidiary of the Purchaser and/or their respective nominee simultaneously upon Completion).

6 WARRANTIES

- 6.1** The Warrantor represents, warrants and undertakes to the Purchaser in the terms of the representations, warranties and undertakings included in clause 4.1 of and schedule 1 to the Reorganisation Agreement (the “**Warranties under the Reorganisation Agreement**”) and that the Warranties under the Reorganisation Agreement are true and accurate.
- 6.2** Each of the Vendor and the Warrantor jointly and severally represents, warrants and undertakes to the Purchaser in the terms of the Warranties (save that the Warranties set out in paragraphs 2.5 to 2.10 of Part A, Schedule 2 are given by each of the Vendor and the Warrantor in respect of itself only) and that such Warranties are true and accurate. Each of the Vendor and the Warrantor acknowledges that the Purchaser has entered into this Agreement in reliance upon the Warranties and the Warranties under the Reorganisation Agreement.
- 6.3** Each of the Vendor and the Warrantor jointly and severally undertakes (without limiting any other rights of the Purchaser in any way including its rights to damages in respect of a claim for breach of any Warranty or any Warranty under the Reorganisation Agreement on any other basis) that it shall pay in cash to the Purchaser (or, if so directed by the Purchaser, to the member of the Target Group in question) (each an “**Indemnified Person**”) by way of indemnity on demand a sum equal to the aggregate of (a) the amount which, if received by the Indemnified Person, would be necessary to put that Indemnified Person into the financial position which would have existed had there been no breach of

the Warranty or the Warranty under the Reorganisation Agreement in question; and (b) all Costs suffered or incurred by the Indemnified Person, directly or indirectly, as a result of or in connection with such breach of Warranty or Warranty under the Reorganisation Agreement.

- 6.4** Each of the Vendor and the Warrantor agrees to waive the benefit of all rights (if any) which the Vendor or the Warrantor may have against any member of the Target Group, or any present or former officer or employee of any such company, on whom the Vendor or the Warrantor may have relied in agreeing to any term of this Agreement and each of the Vendor and the Warrantor undertakes not to make any claim in respect of such reliance.
- 6.5** Each of the Warranties and the Warranties under the Reorganisation Agreement shall be construed as a separate Warranty and (save as expressly provided to the contrary) shall not be limited or restricted by reference to or inference from the terms of any other Warranty or any other Warranty under the Reorganisation Agreement or any other term of this Agreement.
- 6.6** The Warranties and the Warranties under the Reorganisation Agreement shall be deemed to be repeated on Completion with reference to the facts and circumstances then existing.
- 6.7** Each of the Vendor and the Warrantor undertakes to notify the Purchaser in writing promptly if it becomes aware of any circumstance arising after the date of this Agreement which would cause any Warranty or any Warranty under the Reorganisation Agreement (if the Warranties and the Warranties under the Reorganisation Agreement were repeated with reference to the facts and circumstances then existing) to become untrue or inaccurate or misleading in any respect which is material to the financial or trading position of the Target Company.

7 LIMITATIONS ON CLAIMS

- 7.1** Subject to Clause 7.2, the aggregate amount of the liability of each of the Vendor and the Warrantor for all Claims shall not exceed the Total Price.
- 7.2** The limitation contained in Clause 7.1 shall not apply to any breach of any Warranty or any Warranty under the Reorganisation Agreement which (or the delay in discovery of which) is the consequence of dishonest, deliberate or reckless misstatement, concealment or other conduct by any Vendor Group Company or any officer or employee, or former officer or employee, of any Vendor Group Company.

8 PURCHASER'S RIGHTS TO RESCISSION

The Purchaser may by written notice given to the Vendor and the Warrantor at any time prior to Completion rescind this Agreement without liability on the part of the Purchaser if any fact, matter or event (whether existing or occurring on or before the date of this Agreement or arising or occurring afterwards) comes to the notice of the Purchaser at any time prior to Completion which:

- (a) constitutes a breach by the Vendor or the Warrantor of this Agreement (including, without limitation, any breach of the pre-Completion undertakings in Clause 4); or
- (b) would constitute a breach of any Warranty or any Warranty under the Reorganisation Agreement if the Warranties and the Warranties under the

Reorganisation Agreement were repeated on or at any time before Completion by reference to the facts and circumstances then existing; or

- (c) affects or is likely to affect in a materially adverse manner the business, financial position or prospects of the Target Company.

9 WITHHOLDING TAX AND GROSSING UP

- 9.1 Each of the Vendor and the Warrantor shall pay all sums payable by it under this Agreement free and clear of all deductions or withholdings unless the law requires a deduction or withholding. If a deduction or withholding is so required the Vendor or the Warrantor shall pay such additional amount as will ensure that the net amount the payee receives equals the full amount which it would have received had the deduction or withholding not been required.
- 9.2 If any tax authority charges taxation on any sum paid by the Vendor or the Warrantor under or pursuant to this Agreement, then the Vendor or the Warrantor shall pay such additional amount as will ensure that the total amount paid, less the tax chargeable on such amount, is equal to the amount that would otherwise be payable under this Agreement.

10 TAX INDEMNITY

- 10.1 For the Purpose of Clauses 10.1, 10.2, 10.3, 10.4, 10.5, 10.6 and 10.7, the expressions the “**Vendor**”, the “**Warrantor**”, the “**Target Group**” and the “**Purchaser**” shall, where the context permits, include their respective successors and assigns, and unless the context requires otherwise:
 - (a) “**taxation**” means and includes all forms of tax, levy, duty, charge, impost, fee, deduction or withholding of any nature now or hereafter imposed, levied, collected, withheld or assessed by any taxing or other authority in any part of the world and includes any interest, additional tax, penalty or other charge payable or claimed in respect thereof,
 - (b) “**Relevant Claim**” means any assessment, notice, demand, letter or other document issued or action taken by or on behalf of any person, authority or body whatsoever and of whatever country from which it appears that any member of the Target Group is liable or is sought to be made liable to make any payment or is deprived or is sought to be deprived of any relief or allowance or credit or right to repayment of taxation;
 - (c) “**event**” includes (without limitation) the death of any person, any action, omission or transaction whether or not any member of the Target Group is a party thereto and includes completion of the sale of the Target BVI Shares to the Purchaser and references to the result of events on or before the date of Completion shall include the combined result of two or more events one or more of which shall have taken place before the date of Completion;
 - (d) references to income or profits or gains earned, accrued or received shall include income or profits or gains deemed to have been or treated as or regarded as earned, accrued or received for the purposes of any legislation; and

- (e) references to a Relevant Claim shall include any Relevant Claim whether made before or after the date of Completion and whether satisfied or unsatisfied at the date of Completion and shall also include:
- (i) the loss of any relief, allowance or credit granted by or pursuant to any legislation or otherwise for taxation purposes which could but for the Relevant Claim in question have been available to the Purchaser or any member of the Target Group whether or not the said loss results in any taxation being payable at the time of such loss; and
 - (ii) the nullifying or cancellation of a right to repayment of taxation which would have been so available or is at the date hereof assumed by the Vendor, the Warrantor or the Purchaser to be available;

and in such a case the amount of taxation which could otherwise have been relieved, allowed or credited by the relief, allowance or credit so lost or the amount of repayment which would otherwise have been obtained shall be treated as an amount of taxation for which a liability has arisen.

- 10.2** Subject as hereinafter provided, each of the Vendor and the Warrantor hereby jointly and severally undertakes to indemnify and keep indemnified the Purchaser (for itself and as trustee for the Target Group) against any loss or liability suffered by the Purchaser or any member of the Target Group including, but not limited to, any diminution in the value of the assets of or shares in any member of the Target Group, any payment made or required to be made by the Purchaser or any member of the Target Group and any costs and expenses incurred as a result of or in connection with any Relevant Claim falling on any member of the Target Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of Completion or any event on or before the date of Completion whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company.
- 10.3** The indemnities given pursuant to this Clause 10 does not cover any Relevant Claim to the extent that provision or reserve in respect thereof has been made in the Last Accounts or to the extent that payment or discharge of such Relevant Claim has been taken into account therein.
- 10.4** The indemnities given pursuant to this Clause 10 shall cover all costs and expenses incurred by the Purchaser or any member of the Target Group in connection with any Relevant Claim, and any penalties, fines or interest payable by the Purchaser or any member of the Target Group relating to any Relevant Claim for which the Vendor or the Warrantor is liable pursuant to this Clause 10.
- 10.5** In the event that any Relevant Claim which is the subject of an indemnity hereunder is or has been discharged (whether by payment or by the loss of any relief, allowance, credit or right to repayment of taxation) or suffered by any member of the Target Group, the indemnity given hereunder shall take effect as a covenant by the Vendor and the Warrantor forthwith to reimburse the relevant member of the Target Group (through the Purchaser) for any amount so paid or to compensate the relevant member of Target Group for any loss of relief, allowance, credit or right to repayment so suffered.
- 10.6** If the Purchaser becomes aware of a Relevant Claim, it shall as soon as reasonably practicable give notice thereof to the Vendor and the Warrantor and shall (subject to the

Purchaser and the Target Group being indemnified to the Purchaser's satisfaction against any liability, costs, damages or expenses which may be incurred thereby) take such action and procure that the Target Group shall take such action as the Vendor and the Warrantor may reasonably request to avoid, resist, dispute, defend, compromise or appeal against the Relevant Claim, provided that neither the Purchaser nor any member of the Target Group shall be required to take any steps which would require any admission of guilt or liability relating to matters connected with the Relevant Claim in question or which would affect the future conduct of the business of the Purchaser or any member of the Target Group or affect the rights or reputations of any of them nor shall they be required to take any such action unless the Vendor and the Warrantor shall have produced to them a leading barrister's opinion that such action is reasonable.

- 10.7** All payments to be made by the Vendor and the Warrantor pursuant to this Clause 10 shall be made in full without set-off or counterclaim or any restriction or condition and free and clear of any present or future taxes, duties, charges or other deductions or withholdings of any nature. If any deduction or withholding is required to be made from any such payment the Vendor and the Warrantor shall, together with such payment, pay such additional amount as is necessary to ensure that the recipient receives the full amount due hereunder.

11 ENTIRE AGREEMENT

This Agreement constitutes the entire agreement and understanding between the parties in connection with the sale and purchase of the Target BVI Shares. This Agreement supersedes all prior agreements or understandings in connection with the subject matter hereof which shall cease to have any further force or effect. No party has entered into this Agreement in reliance upon any representation, warranty or undertaking which is not set out or referred to in this Agreement.

12 VARIATION

- 12.1** No variation of this Agreement (or of any of the legally binding agreements referred to in this Agreement) shall be valid unless it is in writing and signed by or on behalf of each of the parties to it. The expression "**variation**" shall include any variation, supplement, deletion or replacement however effected.
- 12.2** Unless expressly agreed, no variation shall constitute a general waiver of any provisions of this Agreement, nor shall it affect any rights, obligations or liabilities under or pursuant to this Agreement which have already accrued up to the date of variation, and the rights and obligations of the parties under or pursuant to this Agreement shall remain in full force and effect, except and only to the extent that they are so varied.

13 ASSIGNMENT

- 13.1** The Purchaser and any member of the Target Group may assign its respective rights and benefits under Clause 10 of this Agreement.
- 13.2** Save and except as stipulated in Clause 13.1 above, no party shall be entitled to assign the benefit of any provision of this Agreement without the prior written approval of the other parties.

14 ANNOUNCEMENTS

- 14.1** Except as required by law or by any stock exchange or governmental or other regulatory or supervisory body or authority of competent jurisdiction to whose rules the party making the announcement or disclosure is subject, whether or not having the force of law, no announcement or circular or disclosure in connection with the existence or subject matter of this Agreement shall be made or issued by or on behalf of any of the Vendor Group Companies or any member of the Target Group or any of them without the prior approval of the Purchaser (such approval not to be unreasonably withheld or delayed), or by or on behalf of the Purchaser without the prior approval of the Vendor and the Warrantor (such approval not to be unreasonably withheld or delayed).
- 14.2** Where any announcement or disclosure is made in reliance on the exception in Clause 14.1, the party making the announcement or disclosure will so far as practicable consult with the other parties in advance as to the form, content and timing of the announcement or disclosure.

15 COSTS

The Purchaser shall bear the Costs incurred in connection with the negotiation, preparation and completion of this Agreement.

16 CONFIDENTIALITY

Each of the Vendor and the Warrantor undertakes with the Purchaser that it shall keep confidential (and to ensure that its directors, officers, employees, agents and professional and other advisers keep confidential) any information in its possession (whether before or after the date of this Agreement):

- (a) in relation to the subscribers, business, assets or affairs of the Target Group (including any data held by the Target Group); or
- (b) which relates to the contents of this Agreement (or any agreement or arrangement entered into pursuant to this Agreement),

provided that the undertakings contained in this Clause 16 shall not apply to any information which is in or has entered the public domain (which shall include any public filing or disclosure requirements of the United States Securities and Exchange Commission or under applicable laws) otherwise than as a result of publication or disclosure by the Vendor or the Warrantor or their respective directors, officers, employees, agents and professional and other advisers without the prior written consent of the Purchaser.

Each of the Vendor and the Warrantor shall not use for its own business purposes or disclose to any third party any such information (collectively, "**Confidential Information**") without the consent of the Purchaser.

17 SEVERABILITY

If any provision of this Agreement is held to be invalid or unenforceable, then such provision shall (so far as it is invalid or unenforceable) be given no effect and shall be deemed not to be included in this Agreement but without invalidating any of the remaining provisions of this Agreement. The parties shall then use all reasonable endeavours to replace the invalid or unenforceable

provisions by a valid and enforceable substitute provision the effect of which is as close as possible to the intended effect of the invalid or unenforceable provision.

18 COUNTERPARTS

This Agreement may be executed in any number of counterparts and by the parties to it on separate counterparts, each of which is an original but all of which together constitute one and the same instrument.

19 WAIVER

19.1 No failure or delay by any parties hereto (and, for the purpose of Clause 10 of this Agreement, any member of the Target Group) in exercising any right or remedy provided by law under or pursuant to this Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any other or further exercise of it or the exercise of any other right or remedy.

19.2 The rights and remedies of the parties hereto under or pursuant to this Agreement are cumulative, may be exercised as often as such party considers appropriate and are in addition to its rights and remedies under general law.

20 FURTHER ASSURANCE

Each of the Vendor and the Warrantor agrees to perform (or procure the performance of) all further acts and things, and execute and deliver (or procure the execution and delivery of) such further documents, as may be required by law or as the Purchaser may reasonably require, whether on or after Completion, to implement and/or give effect to this Agreement and the transaction contemplated by it and for the purpose of vesting in the Purchaser the full benefit of the assets, rights and benefits to be transferred to the Purchaser under this Agreement.

21 NOTICES

21.1 Any notice or other communication to be given by one party to any other party under, or in connection with, this Agreement shall be in writing and signed by or on behalf of the party giving it. It shall be served by sending it by fax to the number set out in Clause 21.2, or delivering it by hand, or sending it by pre-paid recorded delivery or registered post, to the address set out in Clause 21.2 and in each case marked for the attention of the relevant party set out in Clause 21.2 (or as otherwise notified from time to time in accordance with the provisions of this Clause 21). Any notice so served by hand, fax or post shall be deemed to have been duly given:

- (a) in the case of delivery by hand, when delivered;
- (b) in the case of fax, upon confirmation of transmission;
- (c) in the case of prepaid recorded delivery or registered post, at 10:00 a.m. on the fifth Business Day following the date of posting,

provided that in each case where delivery by hand or by fax occurs after 6:00 p.m. on a Business Day or on a day which is not a Business Day, service shall be deemed to occur at 9:00 a.m. on the next following Business Day.

References to time in this Clause are to local time in the country of the addressee.

21.2 The addresses and fax numbers of the parties for the purpose of Clause 21.1 are as follows:

The Vendor:

Address: Building C,
No. 156 Fuxingmennei Avenue,
Xicheng District,
Beijing,
PRC

Fax: (8610) 6642 9950

For the attention of: The Legal Department

The Purchaser:

Address: 46th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

Fax: (852) 2626 8800

For the attention of: The Joint Company Secretaries

The Warrantor:

Address: Building C,
No. 156 Fuxingmennei Avenue
Xicheng District
Beijing
PRC

Fax: (8610) 6642 9950

For the attention of: The Legal Department

21.3 A party may notify any other party to this Agreement of a change to its name, relevant addressee, address or fax number for the purposes of this Clause 21, provided that, such notice shall only be effective on:

- (a) the date specified in the notice as the date on which the change is to take place; or
- (b) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date following five Business Days after notice of any change has been given.

21.4 All notices under or in connection with this Agreement shall be in the English language.

22 GOVERNING LAW AND JURISDICTION

22.1 This Agreement and the relationship between the parties shall be governed by, and interpreted in accordance with, the laws of Hong Kong.

22.2 Any dispute arising out of or in connection with this Agreement shall be resolved by arbitration in Hong Kong International Arbitration Centre by a single arbitrator in accordance with the UNCITRAL Arbitration Rules in force from time to time. The parties agree that the arbitral award will be final and binding.

AS WITNESS this Agreement has been signed on behalf of the parties the day and year first before written.

SCHEDULE 1
PART A
Details of the Target BVI Company

1	Name:	China Netcom Group New Horizon Communications Corporation (BVI) Limited
2	Date of Incorporation:	27 July 2005
3	Place of Incorporation:	British Virgin Islands
4	Registered Number:	669445
5	Registered Office:	Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands
6	Directors:	Zhang Chunjiang Tian Suning Jiang Weiping
7	Registered Shareholder:	China Netcom Group Corporation (BVI) Limited
8	Authorised Capital:	US\$50,000.00
9	Issued Capital:	US\$100.00
10	Subsidiaries:	China Netcom Group New Horizon Communications Corporation Limited ()
11	Mortgages and Charges:	None

PART B
Details of the Target Company

- 1 Name:** China Netcom Group New Horizon Communications Corporation Limited
()
- 2 Date of Incorporation:** 9 August 2005
- 3 Place of Incorporation:** Beijing, PRC
- 4 Nature:** Limited liability company
- 5 Scope of Business:** To operate and carry on business with the domestic fixed-line telecommunications network and equipment (including the wireless local network) in the provinces and autonomous region of Shanxi, Neimenggu, Jilin and Heilongjiang; to carry on businesses of voice, data, images, multi-media communications and information services based on fixed-line telecommunications network; settlement of international telecommunications services and develop international communications market.
- 6 Registered Office:** Building C,
No. 156 Fuxingmennei Avenue,
Xicheng District,
Beijing, PRC
- 7 Directors:** Zhang Chunjiang
Tian Suning
Jiang Weiping
- 8 Shareholder:** China Netcom Group New Horizon Communications Corporation (BVI) Limited
- 9 Registered Capital:** RMB 9,466,366,600
- 10 Subsidiaries:** None

SCHEDULE 2
THE WARRANTIES
PART A: General

1 INFORMATION

- 1.1** All information relating to the Target Group provided to the Purchaser or its representatives and advisers for the purposes of inclusion in the Circular or preparation of the Financial Statements and the Appraisal Report is true, accurate and not misleading and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.
- 1.2** Save as already disclosed in writing to the Purchaser, there are no other facts or matters which might reasonably be expected to have a material adverse effect on the financial or trading position or prospects of the Target Company.

2 CORPORATE MATTERS

The Target Group

- 2.1**
- (a) All of the Target BVI Shares are fully-paid or properly credited as fully-paid and the Vendor is the sole legal and beneficial owner of them free from all Encumbrances. The Target BVI Shares constitute the entire issued share capital of the Target BVI Company.
 - (b) The information in respect of the Target BVI Company set out in Part A of Schedule 1 is true and accurate and not misleading.
 - (c) The Target BVI Company has been duly incorporated and is validly existing under the laws of the British Virgin Islands, with legal right, power and authority (corporate and other) to own, use, lease and operate its properties and conduct its business in the manner presently conducted and as described in the Circular, and is duly qualified to transact business in any jurisdiction in which it owns or leases properties or conducts any business and such qualification is required, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; the Memorandum of Association and Articles of Association of the Target BVI Company comply with the requirements of applicable laws of the British Virgin Islands and are in full force and effect.
- 2.2**
- (a) The Target BVI Company is, or will by Completion be, the sole legal and beneficial owner of the whole of the registered capital of the Target Company free from all Encumbrances.
 - (b) The information in respect of the Target Company set out in Part B of Schedule 1 is true and accurate and not misleading.
 - (c) The Target Company is (or a valid application has been made for it to be registered as) a wholly-foreign owned enterprise with limited liability and has been duly organised and is validly existing under the laws of the PRC, and its business licence is in full force and effect; the Articles of Association of the Target Company comply with the requirements of applicable PRC law and are in full force and effect; the registered capital of the Target Company has been duly paid up; the Target Company has all necessary consents, approvals,

authorisations, orders, registrations, clearances and qualifications of or with any court, governmental agency or body having jurisdiction over the Target Company or any of its properties in each jurisdiction in which the ownership or lease of property by it or the conduct of its business (as described in the Circular) requires such qualification, except for such consents, approvals, authorizations, orders, registrations, clearances and qualifications the absence of which is disclosed in the Circular or which is not material to the Target Company, and has the legal right and authority to own, use, lease and operate its assets and to conduct its business in the manner presently conducted and as described in the Circular.

- 2.3** Save for the interest of the Target BVI Company in the Target Company at Completion, no member of the Target Group owns or has any interest of any nature whatsoever in any shares, debentures or other securities issued by any undertaking.
- 2.4** The Target BVI Company does not carry on any business other than holding the Target Company, or owns any material asset other than the registered capital of the Target Company at Completion or has any liabilities.

The Vendor and the Warrantor

- 2.5** Each of the Vendor and the Warrantor is duly incorporated or established and is validly existing under the laws of its jurisdiction of incorporation or establishment, with full power and authority to own, lease and operate its properties and assets and to execute and perform its obligations under this Agreement.
- 2.6** The execution, delivery and performance by each of the Vendor and the Warrantor of this Agreement has been duly authorised by it and this Agreement constitutes a legal, valid and binding obligation of the Vendor or the Warrantor enforceable in accordance with its terms, subject to the laws of bankruptcy and other similar laws affecting the rights of creditors generally.
- 2.7** All necessary regulatory, corporate and other approvals (including shareholder approvals) and authorisations required by the Vendor and the Warrantor for the execution and delivery of this Agreement and any agreement or instrument contemplated hereby, the performance of the terms hereof and thereof and the sale of the Target BVI Shares have been obtained, are unconditional and are in full force and effect.
- 2.8** All necessary consents, approvals and authorisations of any court, government department or other regulatory body required with respect to the Vendor and the Warrantor for the execution of this Agreement and the performance of its terms have been obtained and are unconditional and in full force and effect.
- 2.9** The execution and delivery by the Vendor and the Warrantor of this Agreement, and the performance and completion of the transactions herein contemplated: (a) will not infringe any applicable laws or regulations; (b) will not result in any breach of the terms of, or constitute a default under, its constitutional documents and business licence (as applicable) or any instrument, agreement or governmental, regulatory or other judgement, decree or order to which the Vendor or the Warrantor is a party or by which it or its property is bound; and (c) will not conflict with any of the certificates, licences or permits of the Vendor or the Warrantor that enable it to carry on the business or operations now operated by it.

2.10 Each of the Vendor and the Warrantor is not: (a) in breach of the terms of, or in default under, any instrument, agreement or order to which it is a party or by which it or its property is bound to an extent which is material in the context of the transactions herein contemplated; (b) involved in or the subject of any current or pending investigation or proceedings (whether administrative, regulatory or otherwise), whether in the PRC or elsewhere.

3 FINANCIAL STATEMENTS

Financial Statements

- 3.1** (a) The Financial Statements give a true and fair view of the state of affairs and financial results of the Target Company for the periods and as at the dates stated therein.
- (b) Without limiting the generality of paragraph (a):
- (i) the Accounts either make full provision for or disclose all liabilities (whether actual, contingent or disputed and including financial lease commitments and pension liabilities), all outstanding capital commitments and all bad or doubtful debts of the Target Company as at the Accounts Dates, in each case in accordance with applicable accounting principles;
 - (ii) the Accounts for each of the periods ended on the Accounts Dates were prepared under the historical convention, complied with the requirements of all relevant laws and regulations then in force and with all statements of standard accounting practice (or financial reporting standards) and applicable accounting principles then in force;
 - (iii) except as stated in its Accounts, no changes in the accounting policies were made by the Target Company in any of the periods ended on the Accounts Dates; and
 - (iv) the results shown by the Accounts for each of the periods ended on the Accounts Dates were not (except as therein disclosed) affected by any extraordinary or exceptional item or by any other factor rendering such results for all or any of such periods unusually high or low.
- 3.2** None of the financial information provided to the Purchaser or its representatives and advisers is misleading in any material respect nor materially over-state the value of the assets nor materially under-state the liabilities of the Target Company as at the dates to which they were drawn up and do not materially over-state the profits nor under-state the losses of the Target Company in respect of the periods to which they relate.

Position since Last Accounts Date

- 3.3** (a) Since the Last Accounts Date and compared to the Last Accounts, there has been no material adverse change in the financial or trading position or in the prospects of the Target Company (other than as a result of the Restructuring) and no event, fact or matter has occurred which is likely to give rise to any such change.

- (b) Since the Last Accounts Date and compared to the Last Accounts:
- (i) the business of the Target Company has been carried on in the ordinary and usual course and the Target Company has not made or agreed to make any payment other than routine payments in the ordinary and usual course of trading;
 - (ii) save for any distribution in relation to the Target Company's profit for the six-month period ended 30 June 2005, no dividend or other distribution has been declared, paid or made by the Target Company;
 - (iii) there has been no material change in the level of borrowing or in the working capital requirements of the Target Company;
 - (iv) all transactions between the Target Company and any Vendor Group Company have been on an arm's length basis and commercial terms and in their respective ordinary and usual course of business;
 - (v) save for the Reorganisation Agreement, the Continuing Connected Transactions, any documentation or agreement relating to the 2008 Beijing Olympics sponsorship and contracts entered into in the usual and ordinary course of business of the Target Company, no contract, liability or commitment has been entered into by the Target Company which is of an unusual nature or which involved or could involve an obligation of a material nature or magnitude;
 - (vi) save as provided in the Reorganisation Agreement or in the usual and ordinary course of business of the Target Company, the Target Company has not acquired or disposed of, or agreed to acquire or dispose of any material business or any material asset;
 - (vii) no debtor has been released by the Target Company on terms that it pays less than the book value of its debt and no material debt owing to the Target Company has been deferred, subordinated or written off or has proved to any extent irrecoverable;
 - (viii) no change has been made in terms of employment and any benefits in kind payable to employees and other employment related matters by the Target Company or any Vendor Group Company (other than those required by law) which could materially increase the total costs attributable to employment and employee benefits of the Target Company;
 - (ix) there has been no material increase or decrease in the levels of debtors or creditors or in the average collection or payment periods for the debtors and creditors respectively;
 - (x) the Target Company has not repaid any borrowing or indebtedness in advance of its stated maturity, which has a material effect on the Target Company;
 - (xi) there has been no material reduction in the cash balances of the Target Company;

- (xii) save for any resolution in connection with the Reorganisation Agreement, no resolution of the Target Company has been passed whether in general meeting or otherwise (other than resolutions relating to the routine business of annual general meetings);
- (xiii) the business of the Target Company has not been affected by any abnormal factor not affecting to a similar extent generally all companies carrying on similar businesses; and
- (xiv) the Target Company has not agreed to any variation or termination of any existing contract to which the Target Company is a party and which may have a material effect upon the nature or scope of the operations of the Target Company.

Working Capital

3.4 Having regard to existing bank and other financial facilities, the Target Company has sufficient working capital available to it as at the date of this Agreement to enable it to continue to carry on its business in its present form and at its present level of turnover and for the purpose of performing in accordance with its terms all orders, projects and other obligations and discharging all liabilities which ought properly to be discharged during the period of 12 months after Completion.

Accounting and other Records

- 3.5** (a) The books of account and other records of the Target Company:
- (i) are up-to-date and have been maintained in accordance with all applicable laws and generally accepted accounting practices on a proper and consistent basis;
 - (ii) comprise complete and accurate records of all information required to be recorded therein;
 - (iii) are in its possession or under its control together with all documents of title and executed copies of all existing agreements to which the Target Company is a party.
- (b) All accounts, documents and returns required by law to be delivered or made by the Target Company to any government authority or regulatory body or any other authority have been duly and correctly delivered or made.

4 DEBT POSITION

Debts owed to the Target Company

4.1 There are no outstanding debts owing to the Target Company other than trade debts incurred in the ordinary and usual course of business.

Debts owed by the Target Company

4.2 (a) The Target Company has no outstanding borrowing or indebtedness in the nature of borrowing (including, without limitation, any indebtedness for moneys

borrowed or raised under any acceptance credit, bond, note, bill of exchange or commercial paper, finance lease, hire purchase agreement, trade bills (other than those on terms normally obtained), forward sale or purchase agreement or conditional sale agreement or other transaction having the commercial effect of a borrowing) other than the Intra-Group Loans.

- 4.3 (b) There has not occurred any event of default or any other event or circumstance which would entitle any person to call for early repayment under any agreement relating to any borrowing or indebtedness of the Target Company or to enforce any security given by the Target Company (or, in either case, any event or circumstance which with the giving of notice and/or the lapse of time and/or a relevant determination would constitute such an event or circumstance), which event or circumstance will have a material adverse effect on the Target Company.

5 REGULATORY MATTERS

- 5.1 (a) The Target Company has, or will by Completion have, obtained all necessary licences, permissions, authorisations and consents required for carrying on its business effectively in the places and in the manner in which such business is now carried on.
- (b) The licences, permissions, authorisations and consents referred to in paragraph 5.1(a) are (or will by Completion be) in full force and effect, not subject to any unusual or onerous conditions, have been (or will by Completion have been) complied with in all respects.
- (c) There are no circumstances which indicate that any of the licences, permissions, authorisations or consents referred to in paragraph 5.1(a) will or are likely to be revoked or not renewed, in whole or in part, in the ordinary course of events (whether as a result of the acquisition of the Target BVI Shares by the Purchaser or otherwise).
- 5.2 (a) The Target Company has conducted its business and corporate affairs in accordance with its business licence and with all applicable laws and regulations (whether of the PRC or any other jurisdiction).
- (b) The Target Company is not in material default of any order, decree or judgment of any court or any governmental or regulatory authority (whether of the PRC or any other jurisdiction).

6 THE RESTRUCTURING AND THE ASSETS

The Restructuring

- 6.1 The property and other assets transferred into the Target Company pursuant to the Reorganisation Agreement comprise all the assets necessary for the carrying on of the business carried on or to be carried on by the Target Company in the manner it is presently conducted and as described in the Circular and the liabilities assumed by the Target Company pursuant to the Reorganisation Agreement represent the only liabilities of the Target Company and are fully, fairly and accurately provided for in, the Accounts.

- 6.2** The events and transactions contemplated by the Restructuring do not contravene any provision of applicable law, rule or regulation and do not contravene the Articles of Association, other constitutional documents or the business licence of the Target Company or contravene the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument binding upon the Target Company that, singly or in the aggregate, is material to the Target Company, or any judgement, rule or regulation, order or decree of any governmental body, agency or court having jurisdiction over the Target Company and will not result in the creation or imposition of any Encumbrance or other restriction upon any assets of the Target Company.
- 6.3** All necessary consents, approvals, authorisations, orders, registrations and qualifications required in the PRC in connection with the events and transactions contemplated by the Restructuring have been (or will by Completion have been) made or unconditionally obtained in writing (including, without limitation, all PRC Relevant Governmental Approvals), and no such consent, approval, authorisation, order, registration or qualification has been withdrawn or is subject to any condition precedent which has not been fulfilled or performed.
- 6.4** There are no legal or government proceedings pending against the Target Company in the PRC challenging the effectiveness or validity of the events and transactions contemplated by the Restructuring and, to the best knowledge of the Vendor and the Warrantor, no such proceedings are threatened or contemplated by any governmental agencies in the PRC or elsewhere.

Ownership

- 6.5** (a) For the purpose of this paragraph 6.5, assets shall not include the Properties, to which the provisions of Part B of this Schedule shall apply.
- (b) Each of the assets included in the Accounts or acquired by the Target Company since the Last Accounts Date (other than assets disposed of in the ordinary course of business) is the absolute property of the Target Company. Save as disclosed in the Accounts, those assets are not the subject of any security interest or any assignment, equity, option, right of pre-emption, royalty, factoring arrangement, leasing or hiring agreement, hire purchase agreement, conditional sale or credit sale agreement, agreement for payment on deferred terms or any similar agreement or arrangement (or any agreement or obligation, including a conditional obligation, to create or enter into any of the foregoing).

Possession and Third Party Facilities

- 6.6** (a) All of the assets owned by the Target Company, or in respect of which the Target Company has a right of use, are in the possession or under the control of the Target Company.
- (b) Where any assets are used but not owned by the Target Company or any facilities or services are provided to the Target Company by any third party, there has not occurred any event of default or any other event or circumstance which may entitle any third party to terminate any agreement or licence in respect of the provision of such facilities or services (or any event or circumstance which with the giving of notice and/or the lapse of time and/or a relevant determination would constitute such an event or circumstance).

Adequacy of Assets

- 6.7** (a) The assets of the Target Company and the facilities and services to which the Target Company has a contractual right include all rights, properties, assets, facilities and services necessary or desirable for the carrying on of the business of the Target Company in the manner in which it is currently carried on.
- (b) The assets of the Target Company and the facilities and services to which the Target Company has a contractual right include all assets, facilities and services necessary to enable the Target Company to conduct its business after Completion in the same manner in all material respects as described in the Circular.
- (c) Save as otherwise provided in the Continuing Connected Transactions, the Target Company does not depend in any material respect upon the use of assets owned by, or facilities or services provided by, any Vendor Group Company.

Condition

- 6.8** All the property and assets transferred into the Target Company pursuant to the Reorganisation Agreement including but not limited to infrastructure, plant, machinery, systems, telecommunications networks, equipment, furniture, fixtures and vehicles used by the Target Company:
- (a) are in a good state of repair and have been regularly and properly maintained in accordance with appropriate technical specifications, safety regulations and the terms and conditions of any applicable agreement;
- (b) are capable of being efficiently and properly used for the purposes for which they were acquired or are retained;
- (c) are not dangerous, inefficient, obsolete or in need of renewal or replacement.

7 INTELLECTUAL PROPERTY RIGHTS

Registered Rights

- 7.1** (a) The Target Company is the sole legal owner of all Intellectual Property Rights registered or sought to be registered in any jurisdiction which are held or beneficially owned by the Target Company.
- (b) No act has been done or omitted to be done and no event has occurred or is likely to occur which may render any of such Intellectual Property Rights subject to revocation, compulsory licence, cancellation or amendment or may prevent the grant or registration of a valid Intellectual Property Right pursuant to a pending application.

Infringement

- 7.2** (a) None of the operations of the Target Company infringe, or are likely to infringe, any rights held by any third party or involve the unauthorised use of confidential information disclosed to the Target Company (or any Vendor Group Company) in

circumstances which might entitle a third party to make a claim against the Target Company.

- (b) No claim has been made by any third party which alleges any infringing act or process which would fall within paragraph 7.2(a) above or which otherwise disputes the right of the Target Company to use any Intellectual Property Rights relating to its business and the Vendor and the Warrantor are not aware of any circumstances (including any act or omission to act) likely to give rise to such a claim.
- (c) There exists no actual or threatened infringement by any third party of any intellectual Property Rights held or used by the Target Company (including misuse of confidential information) or any event likely to constitute such an infringement nor has the Target Company (or any Vendor Group Company) acquiesced in the unauthorised use by any third party of any such Intellectual Property Rights.

Intellectual Property Licences

7.3 The Target Company is not in default under any licence, sub-licence or assignment granted to it in respect of any Intellectual Property Rights used by it.

Loss of Rights

7.4 No Intellectual Property Rights owned or used by the Target Company and no licence of Intellectual Property Rights of which the Target Company has the benefit will be lost, or rendered liable to any right of termination or cessation by any third party, by virtue of the acquisition by the Purchaser of the Target BVI Shares.

Records and Software

- 7.5**
- (a) All the accounting records and systems (including but not limited to computerised accounting systems) of the Target Company are recorded, stored, maintained or operated or otherwise held by the Target Company and are not wholly or partly dependent on any facilities or systems which are not under the exclusive ownership or control of the Target Company.
 - (b) The Target Company is licensed to use all software necessary to enable it to continue to use its computerised records for the foreseeable future in the same manner in which they have been used prior to the date of this Agreement and does not share any user rights in respect of such software with any other person.

8 CONTRACTUAL MATTERS

Material Contracts

8.1 Save for the Reorganisation Agreement and the Continuing Connected Transactions, there is not outstanding any agreement or arrangement to which the Target Company is a party:

- (a) which, by virtue of the acquisition of the Target BVI Shares by the Purchaser or other performance of the terms of this Agreement, will result in:

- (i) any other party being relieved of any obligation or becoming entitled to exercise any right (including any right of termination or any right of pre-emption or other option); or
- (ii) the Target Company being in default under any such agreement or arrangement or losing any benefit, right or licence which it currently enjoys or in a liability or obligation of the Target Company being created or increased;
- (b) to which any Vendor Group Company is a party or in which any Vendor Group Company or any connected person (as defined under the Listing Rules) of the Company is interested or from which any such person takes benefit, whether directly or indirectly;
- (c) entered into otherwise than by way of a bargain at arm's length and on commercial terms;
- (d) which establishes any guarantee, indemnity, suretyship, form of comfort or support (whether or not legally binding) given by the Target Company in respect of the obligations or solvency of any third party;
- (e) pursuant to which the Target Company has sold or otherwise disposed of any company or business in circumstances such that it remains subject to any liability (whether contingent or otherwise) which is not fully provided for in the Accounts;
- (f) which, upon completion by the Target Company of its work or the performance of its other obligations under it, is likely to result in a loss for the Target Company which is not fully provided for in the Accounts or which either is not expected to make a normal profit margin or involves an abnormal degree of risk;
- (g) which establishes any joint venture, consortium, partnership or profit (or loss) sharing agreement or arrangement to which the Target Company is a party;
- (h) any power of attorney given by the Target Company or any other authority which would enable any person not employed by the Target Company to enter into any contract or commitment on behalf of the Target Company;
- (i) which involves or is likely to involve (i) material expenditure by the Target Company or (ii) material obligations or restrictions of the Target Company of an unusual or exceptional nature or magnitude and not in the ordinary and usual course of business;
- (j) which establishes any material agency, distributorship, marketing, purchasing, manufacturing or licensing agreement or arrangement to which the Target Company is a party;
- (k) which is a currency and/or interest rate swap agreement, asset swap, future rate or forward rate agreement, interest cap, collar and/or floor agreement or other exchange or rate protection transaction or combination thereof or any option with respect to any such transaction or any other similar transaction to which the Target Company is a party;

- (l) which is any other agreement or arrangement having or likely to have a material effect on the financial or trading position or prospects of the Target Company;
- (m) which is a bid, tender, proposal or offer which, if accepted, would result in the Target Company becoming a party to any agreement or arrangement of a kind described in paragraphs 8.1(a) to (I) above.

Defaults

- 8.2**
- (a) The Target Company is not in default under any agreement to which it is a party, which agreement is material to the Target Company and there are no circumstances likely to give rise to any such default.
 - (b) No party with whom the Target Company has entered into any agreement or arrangement is in default under such agreement or arrangement and there are no circumstances likely to give rise to any such default.

9 LITIGATION AND INVESTIGATIONS

Litigation

- 9.1**
- (a) Except as plaintiff in the collection of debts arising in the ordinary course of business, the Target Company is not a plaintiff nor a defendant in or otherwise a party to any material litigation, arbitration or administrative proceedings which are in progress or threatened or pending by or against or concerning the Target Company or any of its assets.
 - (b) No governmental or official investigation or inquiry concerning the Target Company in a material respect is in progress or pending.
 - (c) The Vendor and the Warrantor are not aware of any circumstances which are likely to give rise to any such proceeding, investigation or inquiry as is referred to in paragraph 9.1(a) or paragraph 9.1(b).

10 DIRECTORS AND EMPLOYEES

Employees

- 10.1** The Target Company has not entered into any arrangements regarding any future variation in any contract of employment in respect of any of its directors and employees nor any agreement imposing a material obligation on the Target Company to increase the basis and/or rates of remuneration and/or the provision of other benefits in kind to or on behalf of any of its directors or employees at any future date.

Compliance

- 10.2** The Target Company has in relation to each of its employees (and so far as relevant to each of its former employees) complied in all material respects with all statutes, regulations, codes of conduct, collective agreements, terms and conditions of employment, orders and awards relevant to their conditions of service or to the relations between it and its employees (or former employees, as the case may be) or any recognised trade union.

Incentive Schemes

10.3 The Target Company does not have any share incentive scheme, share option scheme or profit sharing scheme for all or any of its directors or employees.

Payments on Termination

10.4 Except to the extent (if any) to which provision or allowance has been made in the Last Accounts:

- (a) no outstanding liability has been incurred by the Target Company for breach of any contract of employment or for services or for long service or redundancy payments, protective awards, compensation for dismissal or for any other liability accruing from the termination of any contract of employment or for services, and no such liability will be incurred by the Target Company as a result of the Restructuring or the acquisition of the Target BVI Shares by the Purchaser or other performance of the terms of this Agreement and the Reorganisation Agreement;
- (b) no gratuitous payment has been made or benefit given (or promised to be made or given) by the Target Company in connection with the actual or proposed termination or suspension of employment, or variation of any contract of employment, of any present or former director or employee of the Target Company.

11 INSOLVENCY ETC.

- 11.1** No order has been made, petition presented or meeting convened for the purpose of considering a resolution for the winding up of any member of the Target Group or for the appointment of any provisional liquidator. No petition has been presented for an administration order to be made in relation to any member of the Target Group, and no receiver (including any administrative receiver) has been appointed in respect of the whole or any part of any of the property, assets and/or undertaking of any member of the Target Group.
- 11.2** No composition in satisfaction of the debts of any member of the Target Group, or scheme of arrangement of its affairs, or compromise or arrangement between it and its creditors and/or members or any class of its creditors and/or members, has been proposed, sanctioned or approved.
- 11.3** No distress, distraint, charging order, garnishee order, execution or other process has been levied or applied for in respect of the whole or any part of any of the property, assets and/or undertaking of any member of the Target Group.
- 11.4** No events or circumstances analogous to any of those referred to in paragraphs 11.1 to 11.3 have occurred in any jurisdiction outside the PRC.
- 11.5** No circumstances exist which are likely to give rise to the occurrence of any events or circumstances described in paragraphs 11.1 to 11.4 if the Warranties were to be repeated at any time on or before Completion.

PART B: Tax and Property Warranties

1 TAX

- 1.1** The Target Company has all necessary tax registration certificates which are in full force and effect and the Target Company has not established any place of business or carried on any business and has not made any filing with any tax authority in any part of the world other than the PRC.
- 1.2** The Target Company has complied in all material respects with all statutory provisions, rules, regulations, orders and directions concerning profits or enterprise income tax, foreign invested enterprise income tax, value-added tax, business tax and stamp duty (and any similar applicable tax or taxation in the PRC).
- 1.3** No tax authority has agreed to operate any special arrangement (being an arrangement which is not based on a uniform application of the relevant legislation whether expressly provided for in the relevant legislation or operated by way of extra statutory concession or otherwise) in relation to the Target Company.
- 1.4** The Target Company has duly, within all appropriate time limits, made all returns, given all notices and supplied all information required to be supplied to all relevant tax authorities. All such information was when provided and remain complete and accurate and all such returns and notices were when provided and remain complete and accurate and were made on a proper basis.
- 1.5** The Target Company has not received any notice or allegation from any tax authorities that it has not complied with any relevant legal requirement relating to registration or notification for taxation purposes, and the Target Company is not involved in any dispute or investigation with any tax authority and there are no evidence, facts or matters which it reasonably believes will cause any such dispute or investigation or any liability for taxation (present or future).
- 1.6** The Target Company:
- (a) has paid or accounted for all taxation (if any) due to be paid or accounted for by it before the date of this Agreement;
 - (b) is not under any liability to pay any penalty or interest in connection with any taxation referred to in paragraph 1.6(a);
 - (c) has made all deductions and withholdings in respect or on account of taxation which it is required or entitled by any relevant legislation to make from any payments made by it including, without limitation, interest annuities or other annual payments, royalties, rent, remuneration payable to employees or sub-contractors or payments to a non-resident and where the Target Company has accounted in full to the relevant fiscal authority for any taxation so deducted or withheld; and
 - (d) has taken all necessary steps to obtain any repayment of or relief from taxation available to it.
- 1.7** All sums due and payable to any taxation authority in respect of emoluments paid and benefits provided to the employees of the Target Company at the date of this Agreement

have been paid and all such deductions and retentions as are required under the laws of the PRC have been made.

- 1.8** All remuneration, compensation payments, payments on retirement or removal from an office or employment and other sums paid or payable to employees or officers or former employees or officers of the Target Company and all interest, annuities, royalties, rent and other annual payments paid or payable by the Target Company (whether before or after the date hereof) pursuant to any obligation in existence at the date hereof are and will (on the basis of the taxation legislation in force at the date hereof) be deductible for income tax purposes either in computing the profits of the Target Company or as a charge on the income of the Target Company.
- 1.9** The Target Company has made or caused to be made the returns which ought to be made by or in respect of each for any taxation purposes and no returns are the subject of any dispute with any tax authority.

2 PROPERTY

- 2.1** The Target Company has legal right and authority to occupy and use all of the Properties and legal right and authority to use all material personal property owned by it, in each case free and clear of all Encumbrances, defects or any other restrictions except such as are described in the Property Legal Opinions or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Target Company.
- 2.2** The Target Company does not own, operate, manage or has any other right or interest, directly or indirectly, in any other material real property of any kind save for those described in the Property Legal Opinions and the Property Leasing Agreement and the Property Sub-leasing Agreement referred to in the Appendix.

APPENDIX
Continuing Connected Transactions

1. Domestic Interconnection Settlement Agreement
2. International Long Distance Voice Services Settlement Agreement
3. Property Leasing Agreement
4. Property Sub-leasing Agreement
5. Master Sharing Agreement
6. Engineering and Information Technology Services Agreement
7. Materials Procurement Agreement
8. Ancillary Telecommunications Services Agreement
9. Support Services Agreement
10. Telecommunications Facilities Leasing Agreement

SIGNATURE PAGE

SIGNED by /s/ Zhang Chunjiang)

for and on behalf of)

CHINA NETCOM GROUP CORPORATION (BVI) LIMITED)

in the presence of:)

/s/ Celia Lam

Celia C.L. Lam
Linklaters
Solicitor, Hong Kong SAR

SIGNED by /s/ Zhang Chunjiang)

for and on behalf of)

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED)

in the presence of:)

/s/ Celia Lam

Celia C.L. Lam
Linklaters
Solicitor, Hong Kong SAR

SIGNED by /s/ Zhang Chunjiang)

for and on behalf of)

CHINA NETWORK COMMUNICATIONS GROUP)

in the presence of:)

/s/ Celia Lam

Celia C.L. Lam
Linklaters
Solicitor, Hong Kong SAR

15 January 2007

CHINA NETCOM (GROUP) COMPANY LIMITED

and

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

ASSET TRANSFER AGREEMENT

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ASSET TRANSFER AGREEMENT

THIS AGREEMENT is made on 15 January 2007 in Beijing, the People's Republic of China (the "PRC")

BETWEEN:

Transferor: CHINA NETCOM (GROUP) COMPANY LIMITED
(the "Transferor" or "CNC China")
Address: Rm. 1020, China Netcom Tower, No. 21 Financial Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

Transferee: CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
(the "Transferee" or "China Netcom Group")
Address: Rm. 1207, China Netcom Tower, No. 21 Financial Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

WHEREAS:

- (1) CNC China is a limited liability company established and existing in accordance with the laws of the PRC. CNC China engages in the businesses of domestic fixed telecommunications networks and facilities (including local wireless loops), voice, data, video and multi-media communications and information services based on fixed telecommunications networks in twelve provinces, autonomous regions and municipalities including Beijing, Tianjin, Hebei, Liaoning, Shandong, Henan, Shanghai, Guangdong, Shanxi, Neimenggu, Jilin and Heilongjiang, international telecommunications settlement and the development of international telecommunications market. CNC China also engages in system integration, technical development, technical service, information consultancy services, equipment manufacture and sales, design and construction in relation to communications and information services. CNC China is a wholly-owned subsidiary of China Netcom Group Corporation (Hong Kong) Limited ("CNC HK").
- (2) China Netcom Group is a State-owned enterprise established and existing in accordance with the laws of the PRC, and an entity in which the investment is made with the authorisation of the State. China Netcom Group currently holds 69.88% of the shares of CNC HK.
- (3) CNC HK is a corporation incorporated and existing in accordance with the laws of Hong Kong. Its shares were listed on the SEHK on 17 November 2004, and its American Depositary Shares were listed on the New York Stock Exchange on 16 November 2004.
- (4) CNC China engages in the businesses of domestic fixed telecommunications networks and facilities (including local wireless loops), voice, data, video and multi-media communications and information services based on fixed telecommunications networks in Shanghai and Guangdong through its branches in Shanghai and Guangdong, and owns the relevant telecommunications assets.
- (5) CNC China intends to transfer to China Netcom Group, and China Netcom Group intends to accept the transfer of, the Target Assets (the "Asset Transfer").

NOW THEREFORE, for the purpose of the Asset Transfer, through friendly negotiation based on the principle of equality and mutual benefit, the parties hereto agree as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Unless otherwise specified therein, the following expressions shall have the following meanings in this Agreement, including the recitals hereof and the appendix hereto:

“Transferor” or “CNC China”	means China Netcom (Group) Company Limited.
“Transferee” or “China Netcom Group”	means China Network Communications Group Corporation.
“CNC HK”	means China Netcom Group Corporation (Hong Kong) Limited.
“Shanghai Branch”	means China Netcom (Group) Company Limited, Shanghai Branch.
“Guangdong Branch”	means China Netcom (Group) Company Limited, Guangdong Branch.
“Target Assets”	means the businesses owned by CNC China in Shanghai and Guangdong in respect of the local domestic fixed telecommunications networks and facilities (including local wireless loops), voice, data, video and multi-media communications and Information services based on fixed telecommunications network, and the relevant core communications assets and liabilities in connection with telecommunications services owned by CNC China.
“Asset Transfer”	means the transfer of the Target Assets by the Transferor to the Transferee under Clause 2.1 hereof.
“Asset Transfer Price”	means the aggregate amount of the cash consideration for the Asset Transfer as provided in Clause 2.2 hereof.
“Completion Date”	means the end of the month in which all the conditions precedent to the Asset Transfer set out in Clause 8.1 hereof have been satisfied or waived in writing by the parties to the extent permitted by applicable laws, whichever is later, or another date agreed upon by the parties hereto.
“Agreements pending Assignment”	mean the agreements as defined in Clause 3.2 hereof.
“Compensation Period”	means a period of two years from the Completion Date as provided in Clause 9.5 hereof.
“Pre-emptive Right”	means the right granted by China Netcom Group to CNC HK and CNC China as defined in Clause 10.1 hereof.

“MII”	means the Ministry of Information Industry of the PRC.
“MOC”	means the Ministry of Commerce of the PRC.
“SEHK”	means The Stock Exchange of Hong Kong Limited.

- 1.2** Unless otherwise expressly provided, all references to a clause or article in this Agreement shall refer to a clause or article of this Agreement.
- 1.3** The term “including” used in this Agreement shall refer to “including but not limited to”.
- 1.4** All references to a party to this Agreement or any other agreement or document in this Agreement shall include any successor or authorised assignee of such party.
- 1.5** All references to any law or any provision of any law in this Agreement shall include any amendment to or re-enactment of such law or provision, any legal provision replacing such law or provision, and all regulations and legal documents promulgated pursuant thereto.
- 1.6** The headings in this Agreement and the appendix hereto are inserted for convenience only and shall not have any effect on the construction of this Agreement.

2 ASSET TRANSFER

- 2.1** The Transferor agrees to transfer the Target Assets owned by the Transferor to the Transferee (particulars of which are specified in Appendix 1) on the Completion Date as stipulated in this Agreement, and the Transferee agrees to accept the transfer of the Target Assets, in accordance with the terms and conditions as set forth herein.
- 2.2** The Transferor agrees to sell the Target Assets to the Transferee for a consideration in cash of RMB 3,500 million (the “**Asset Transfer Price**”). In addition, the Transferee will assume an aggregate principal amount of RMB 3,000 million of debt which is due and owing from the Shanghai Branch and the Guangdong Branch to independent third parties upon completion of the Asset Transfer.
- 2.3** The parties hereto agree that the Transferee shall pay RMB 1,050 million in cash to the Transferor (equivalent to thirty per cent. (30%) of the Asset Transfer Price) in full within one (1) business day after the Completion Date and the Transferee shall pay the remaining RMB 2,450 million in cash to the Transferor (equivalent to seventy per cent. (70%) of the Asset Transfer Price) in full within thirty (30) days after the Completion Date.
- The Transferee agrees to transmit the aforesaid Asset Transfer Price to a bank account as designated by the Transferor.
- 2.4** Except as provided in Clause 9.1 hereof, the Transferee shall be the owner of the Target Assets immediately after the Completion Date.

3 ASSET DELIVERY

- 3.1** Except as otherwise provided by this Agreement, the Target Assets shall be deemed to have been legally owned by China Netcom Group on the Completion Date, and China Netcom Group shall not bring any claims against CNC China in respect of the delivery of the Target Assets other than those as agreed upon herein, except in the case of any breach hereof by CNC China existing prior to the Completion Date. All assets, liabilities, responsibilities and obligations concerning the Target Assets existing prior to the Completion Date shall be borne by CNC China; and any debts concerning the Target Assets and other forms of assets, liabilities, responsibilities and obligations arising after the Completion Date shall be borne by China Netcom Group.
- 3.2** For the purpose of the transfer of the Target Assets, contracts and agreements executed in the name of Shanghai Branch or Guangdong Branch or any of their sub-branches in connection with the Target Assets and interests which are effective shall belong to China Netcom Group commencing from the Completion Date, and the parties hereto have entered into deed of novation and/or consent letter with other relevant parties to some of such contracts and agreements. Due to the time limit and the amount of such contracts and agreements, there are a certain number of such contracts and agreements the assignment of which from CNC China to China Netcom Group has not been approved by other relevant parties thereto (the “**Agreements Pending Assignment**”). With reference to the Agreements Pending Assignment, the parties hereto specifically agrees as follows:
- (1) unless otherwise provided herein, any rights, obligations, profits or losses held by CNC China under the Agreements Pending Assignment shall belong to China Netcom Group commencing from the Completion Date. CNC China agrees that any interests received or held by CNC China in respect of the Agreements Pending Assignment shall be deemed to have been received or held by CNC China in the capacity as a trustee of China Netcom Group, and the ownership of such interests shall belong to China Netcom Group. CNC China shall transfer such interests to China Netcom Group as requested by China Netcom Group from time to time.
 - (2) CNC China shall exercise and perform the rights and obligations under the Agreements Pending Assignment strictly in accordance with the instructions given by China Netcom Group from time to time, and may not amend any provisions of the Agreements Pending Assignment or terminate any of the Agreements Pending Assignment.
 - (3) China Netcom Group shall indemnify CNC China against any actual costs and expenses reasonably incurred due to the performance by CNC China of its obligations under Clause 3.2.1 above, except those caused by an act of negligence or willful default on the part of CNC China.
 - (4) if it is required to enforce any of the rights of China Netcom Group under the Agreements Pending Assignment in the name of CNC China, including to bring or conduct legal or arbitration proceedings or other necessary actions, CNC China shall assist China Netcom Group in enforcing such rights in the name of CNC China.
 - (5) the parties hereto shall use their best endeavours to complete the formalities for the assignment of the Agreements Pending Assignment as soon as practicable, and/or to obtain the approval letters from other relevant parties to the Agreements Pending Assignment.
- 3.3** Due to the reason that some of the Target Assets, such as land use rights, buildings, structures and vehicles, the transfer and registration formalities of which needs to be completed, and that

only the de facto delivery (transfer of ownership) of such assets and not the transfer of legal ownership of such assets (completion of the transfer formalities) can be completed on the Completion Date, CNC China agrees to assume the obligations to assist the transfer of the ownership of such assets to China Netcom Group or its local branch or sub-branch after the Completion Date.

- 3.4** The Transferor and the Transferee agree that the account receivables and the account payables between the Shanghai Branch and the Guangdong Branch on the one hand and the Transferor on the other hand shall be settled in cash within one (1) business day after the Completion Date.
- 3.5** The parties hereto agree to use their best endeavours to complete the completion formalities that have not been completed on the Completion Date. The parties hereto agree to take all necessary steps to ensure the full implementation of the completion, including but not limited to the entering into or procuring other relevant parties to enter into any document, applying for and obtaining any approval, consent and permit, and handling the registration, recording and filing of the relevant procedural documents. The parties hereto shall negotiate in an amicable manner and handle properly any relevant matters not referred to herein.

4 PROFIT AND LOSS BEFORE AND AFTER COMPLETION

- 4.1** The parties hereto agree that the profit and loss generated from the Target Assets prior to the Completion Date (and including the Completion Date) shall be borne and owned by the Transferor.
- 4.2** The parties hereto agree that the profit and loss generated from the Target Assets after the Completion Date shall be borne and owned by the Transferee.

5 EXPENSES AND TAXATION

The parties hereto shall pay their respective taxes arising in connection with the Asset Transfer in accordance with the requirements under the laws, regulations and regulatory documents of the PRC. All expenses incurred as a result of the negotiation, preparation and implementation of this Agreement shall also be borne by the respective parties.

6 LABOUR ARRANGEMENT

- 6.1** The parties hereto acknowledge that the Transferor shall determine a list of employees who are to be transferred to the Transferee together with the Target Assets and such employees shall include all members of the senior management and ordinary employees.
- 6.2** The parties hereto acknowledge that the labour relationships of all the employees relating to the Target Assets and their social security (including pension insurance, medical insurance, and unemployment insurance) prior to the Completion Date shall be handled and arranged by the Transferor; and that the labour relationships of all the employees relating to the Target Assets and their social security (including pension insurance, medical insurance, and unemployment insurance) from the Completion Date shall be handled and arranged by the Transferor.
- 6.3** The Transferor and the Transferee shall be jointly responsible and shall jointly settle any labour dispute arising from causes occurred before the date on which the labour contracts are amended and from the amendments to the labour contracts.

7 STATEMENTS, REPRESENTATIONS AND WARRANTIES

7.1 Each of the parties hereto represent to each other that:

- (1) such party has full legal right, power and authority to execute this Agreement and perform its obligations hereunder, which constitute valid obligations binding upon such party pursuant to the provisions of this Agreement;
- (2) the performance of the provisions of this Agreement will not result in:
 - (i) any breach of any provision of such party's incorporation documents or other relevant documents, or breach of any law, regulation and rule applicable to such corporation; or
 - (ii) any breach of any important contract, agreement, permit or other instrument, or any order, judgement or decree issued by any court, governmental department and regulatory authority;
- (3) such party will provide full consultation, close collaboration and active support to the other party in the process of the Asset Transfer, especially in satisfying or fulfilling the conditions precedent and handling the completion formalities of the Asset Transfer;
- (4) such party has executed and processed or will execute and process all necessary documents and approvals, and has taken or will take all necessary steps pursuant to relevant laws, regulations and rules to ensure the legality and validity of the Asset Transfer contemplated herein;
- (5) such party will handle or assist the other party in the mutual handling of any matter in respect of the Asset Transfer, including without limitation providing information in respect of the Transferor, drafting and executing relevant documents, and handling relevant approval and registration formalities in accordance with the provisions of applicable law and this Agreement.

7.2 Except as provided in Clause 7.1 above, the Transferor undertakes to the Transferee in respect of the Target Assets as follows:

- (1) the Transferor will operate and manage the Target Assets and the businesses relating thereto in the ordinary manner from the date hereof till the Completion Date;
- (2) the Target Assets are lawfully owned by the Transferor with a clear and legal title and free from any dispute;
- (3) except as disclosed to the Transferee by the Transferor, the Transferor has not created any mortgage, pledge, lien, or any third party right over such telecommunications assets which may materially affect the right of the Transferee in respect of the Target Assets;
- (4) other than the liabilities as disclosed and/or the liabilities arising in the ordinary course of business, the Target Assets are free and clear of, and/or will not be affected by any actual and/or contingent liabilities or obligations prior to the Completion Date;
- (5) the transfer of the Target Assets from the Transferor to the Transferee hereunder does not constitute any breach of any contract and agreement to which the Transferor is a

party or any applicable law, administrative regulations and rules, nor does it constitute any infringement of any right of any third party;

- (6) there is no litigation, arbitration or administrative punishment which will materially and adversely affect the Target Assets or any threat of such litigation, arbitration and administrative punishment.

7.3 The Transferor and Transferee undertake that in the event that a party hereto breaches any statement, representation and warranty set out in this Clause 7, the party in breach shall indemnify the other party in full against any claim, loss, expense or other liability resulting from the breach.

8 CONDITIONS PRECEDENT

8.1 The parties hereto agree that the completion of the following matters by the parties hereto shall constitute the conditions precedent to the Asset Transfer:

- (1) The approval by the shareholders of CNC HK in general meeting in relation to the implementation of the Asset Transfer in accordance with applicable laws, regulations and listing rules;
- (2) MII, MOC and other relevant government and regulatory authorities approving matters relating to the Asset Transfer such as the change of the business scope of CNC China.

8.2 The parties hereto shall use their best endeavours to cooperate to satisfy or procure the satisfaction of each of the conditions precedent following the execution of this Agreement. Neither party may engage in any act that may preclude or restrict the satisfaction of any condition precedent as set forth in Clause 8.1 above.

9 EVENTS OF BREACH AND COMPENSATION

9.1 In the event that the Transferee fails to pay to the Transferor the Asset Transfer Price as scheduled in accordance with the provisions of Clause 2.3 hereof, the Transferee shall pay to the Transferor a daily fine in an amount equal to 0.05% of the overdue payment, and the Transferor may suspend the Asset Transfer by a written notice to the Transferee sixty (60) days after the date on which the payment is due if such amount remains unpaid. If the Transferee does not pay the Asset Transfer Price and the accrued overdue fine within thirty (30) days after receipt of the notice of payment from the Transferor, the Transferor may declare to terminate this Agreement.

Any suspension or termination of this Agreement and the Asset Transfer as set forth hereinabove shall not affect the rights and obligations of the parties hereto which have already been created or accrued under this Agreement (except as provided in Clause 2.4).

9.2 Any non-performance or partial performance of this Agreement or any performance hereof not in compliance with the manner or terms as agreed herein shall constitute a breach of this Agreement, the party in breach shall be liable to the non-defaulting party for such breach. In case there is breach by each of the parties, their respective liabilities for such breach shall be ascertained.

9.3 After the formal execution of this Agreement, any non-performance or partial performance by either party of any obligation, statement, warranty or undertaking provided in this Agreement shall constitute a breach hereof by such party. The party in breach shall make full and adequate compensation to the other party, including but not limited to the costs of any legal action against

the party in breach incurred by non-defaulting party (including without limitation professional consultation fees) and any legal action involving a third party and compensations payable to a third party (including without limitation professional consultation fees) due to the breach.

9.4 The maximum amount of compensation payable by one party to this Agreement to the other under this Clause 9 shall not exceed the Asset Transfer Price.

9.5 A party to this Agreement may institute claims for compensation against the other within two years after the Completion Date (the “**Compensation Period**”) [, and any claims for compensation shall be subject to the relevant provisions regarding limitation on legal proceedings under PRC laws].

If a party fails to institute a claim for compensation against the other party during the Compensation Period, such party will be deemed to have waived its rights to claim compensation under this Agreement (alternatively, the other party will be deemed not to have committed any breach whilst discharging Its obligations). After the Compensation Period, a party without having instituted claims for compensation shall not institute claims for compensation against the other in respect of the discharge of obligations under this Agreement.

10 PRE-EMPTIVE RIGHT

10.1 In the event that China Netcom Group intends to dispose of the Target Assets or enter into any joint venture or cooperation with any other party in respect of the interests in the Target Assets following the completion of the Asset Transfer, CNC China will be entitled to a first right to acquire them or participate in such joint venture or cooperation at terms equal to or no less favourable than those offered by China Netcom Group to other parties.

10.2 CNC China shall comply with the relevant provisions of the listing rules of the SEHK and the laws and regulations of the PRC in its exercise of the pre-emptive right pursuant to this Clause 10.

11 FORCE MAJEURE

11.1 If any of the parties is rendered unable to perform or is caused to delay in his performance of any obligation under this Agreement due to the occurrence of any event beyond its reasonable control or due to any reason other than its own fault or negligence, such party shall not be deemed to have breached this Agreement and the performance of such obligation shall be suspended to the extent which is fair and reasonable under the circumstances.

11.2 If a party is rendered unable to perform any of its obligations under this Agreement as a result of a force majeure event, such party shall give a written notice to the other party within 7 business days of the occurrence of such force majeure event and the parties shall mitigate the damage to an extent as is reasonably possible. In the event of any force majeure, no party shall be held liable for any damage, increase in expenses or loss incurred by the other party due to any failure to perform or delay in performing this Agreement caused by such force majeure event, and no such failure or delay shall be deemed a breach of this Agreement. The party claiming the force majeure event as the cause of its non-performance shall take proper steps to mitigate or eliminate the effect of the force majeure event, and shall, within the shortest possible time, endeavour to resume the performance of any obligation so affected by the force majeure event.

12 INFORMATION DISCLOSURE AND CONFIDENTIALITY

Unless otherwise provided by the PRC laws or the laws of the place where the shares of CNC HK are listed and the listing rules or otherwise required by the SEHK or any other regulatory

authorities, no party to this Agreement shall publish or permit any person to publish any announcement relating to this Agreement or any matter ancillary to this Agreement without the prior written consent of the other party (such consent shall not be unreasonably withheld).

13 SURVIVAL

Save and except as provided under Clause 9.5, the representations, warranties, covenants and indemnity set out in this Agreement shall continue to have force and effect after the completion of the Asset Transfer.

14 RESOLUTION OF DISPUTES

If any dispute arises in connection with the interpretation or implementation of this Agreement, the relevant parties shall endeavour to resolve the dispute through friendly negotiation or mediation conducted by the representatives appointed by each of the parties for such purpose. If the relevant parties fail to resolve any dispute in the manner as described above within 30 days after the occurrence of such dispute, either party may initiate an action at a People's Court with competent jurisdiction.

15 NOTICES

15.1 Any notices required to be delivered under this Agreement must be in writing and delivered to the addresses set forth in the beginning of this Agreement, or delivered to the relevant addresses or transmitted to the fax numbers that are notified by either of the parties to the other party in writing from time to time.

15.2 Any of the notices mentioned above must be delivered by hand, or sent by registered mail or transmitted by fax. Any such notice shall be deemed to have been received upon delivery if delivered by hand, or deemed to have been received on the date of the acknowledgement if posted by registered mail, or deemed to have been received at the time of transmission if transmitted by fax.

15.3 The information for the delivery of notices to the parties to this Agreement are as follows:

China Netcom (Group) Company Limited

China Network Communications
Group Corporation

Addressee: Liu Haiqiang

Addressee: Luo Gang

Address: Rm. 1020, China Netcom Tower, No. 21 Financial Street,
Xicheng District, Beijing

Address: Rm. 1207, China Netcom Tower, No. 21 Financial Street,
Xicheng District, Beijing

Postal Code: 100032

Postal Code: 100032

Fax: 010 6625 9544

Fax: 010 6625 9950

16 CONFLICTS

In the event that there is any apparent conflict or discrepancy with the provisions of any other relevant documents in connection with the Asset Transfer, the provisions of such documents shall

be appropriately interpreted by reference to the provisions of this Agreement to the extent permitted by the PRC laws.

17 NO ASSIGNMENT

No party shall assign or otherwise transfer or shall purport to assign all or part of its rights, interests, liabilities or obligations under this Agreement without the prior written consent of the other party to this Agreement.

18 SEVERABILITY

If any one or more of the provisions under this Agreement becomes invalid, illegal or unenforceable in any respect in accordance with any applicable laws, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected or prejudiced in any manner.

19 NO WAIVER

Save and except as provided under Clause 9.5, no failure or Inability of any party to exercise, and no delay in exercising, any right, power or remedy under or conferred in accordance with this Agreement shall constitute a waiver of such right, power or remedy by that party.

20 GOVERNING LAW

This Agreement shall be governed by the laws of the People's Republic of China, and shall be interpreted and implemented in accordance with the laws of the People's Republic of China.

21 LANGUAGE AND COUNTERPARTS

This Agreement shall be written in Chinese. This Agreement shall be entered Into in 12 original copies. Each of the parties shall keep 4 copies, and the remaining copies shall be submitted to the relevant competent authorities of the government for approval and/or filing. Each of the aforesaid copies of this Agreement shall have equal legal effect.

22 APPENDIX TO THIS AGREEMENT

22.1 The appendix to this Agreement is an integral part of this Agreement, and shall have the same legal effect as the main body of this Agreement as if it was included in the main body of this Agreement.

22.2 Amendments to this Agreement or the appendix to this Agreement shall only be made In writing, and shall be executed and chopped by the legal representatives of the parties or their authorized representatives, and be subject to the approvals required to be obtained by the parties in accordance with their respective constitutional documents.

23 EFFECTIVENESS OF THIS AGREEMENT

This Agreement shall become effective after it has been executed and chopped by the legal representatives of the parties or their authorized representatives.

In witness hereof, this Agreement is entered into by the authorized representatives of the parties on the date and at the place stated on the first page of this Agreement.

(There is no text below and the next page is the signing page.)

(This page is the signing page and does not contain any text.)

China Netcom (Group) Company Limited (chop)

Legal Representative or Authorized Representative: _____
(signature)

China Network Communications Group Corporation (chop)

Legal Representative or Authorized Representative: _____
(signature)

APPENDIX
PARTICULARS OF TARGET ASSETS AND DESCRIPTION OF RELEVANT
INFORMATION

1. Assets and related liabilities of China Netcom (Group) Company Limited, Shanghai Branch

The specific relevant assets include: current assets, machinery and equipment, land and buildings, construction in progress, construction materials, other intangible assets, long-term amortisation expenses, deferred tax debits and current liabilities.

2. Assets and related liabilities of China Netcom (Group) Company Limited, Guangdong Branch

The specific relevant assets include: current assets, machinery and equipment, land and buildings, construction in progress, construction materials, land use rights, other intangible assets, deferred assets and current liabilities of the 21 sub-branches of Guangdong Branch in Guangzhou, Shenzhen, Dongguan, Zhuhai, Zhongshan, Foshan, Huizhou, Jiangmen, Jieyang, Shunde, Zhanjiang, Maoming, Zhaoqing, Shantou and Chaozhou.

DOMESTIC INTERCONNECTION SETTLEMENT AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to interconnect and settle fees with Netcom Group in its relevant telecommunications services operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding relevant issues relating to interconnection settlement between the two Parties, Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) and CNC China (including branches, subsidiaries, and other controlled units) agreed hereto as follows:

1. BASIC PRINCIPLES

1.1 For the services and/or facilities provide by either Party to the other Party under this Agreement, the Party reserves the right to collect reasonable service fees based on the principle of fairness for such services and/or facilities it provides. The other Party shall make the payment for the services/or facilities provided.

1.2 The terms of services and/or facilities offered by one Party to the other under this Agreement shall not be worse than any other third party offering the same or similar services and/or facilities.

1.3 Should either Party hereunder demand for more services and/or facilities hereunder from the other Party, the other Party shall make its utmost effort to provide such services and/or facilities requested under the conditions no less favorable than that under which this Party may provide the same or similar services and/or facilities to a third party.

1.4 The agreed services and/or facilities hereunder shall fully comply with the purposes agreed upon under this Agreement and the standard set by the State.

1.5 In the event of any breach of any provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in default shall be liable for all immediate and full damages for breaching this Agreement. However, this Party shall not be held responsible for such losses in the event of Force Majeure.

1.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

1.7 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

2. INTERCONNECTION AND SETTLEMENT VARIETIES

2.1 The Parties agree to achieve interconnections between various telecommunications networks of the Parties.

2.2 The Parties agree to settle domestic long distance voice services as is set forth in this Agreement.

3. INTERCONNECTION TECHNICAL REGULATIONS AND STANDARDS, SHARE OF INTERCONNECTION COSTS AND ENGINEERING CONSTRUCTION

3.1 All foresaid connections shall be made in accordance with the interconnection technical regulations promulgated by national telecommunications regulatory authorities.

3.2 The Parties shall negotiate on the settlement of interconnection costs and engineering construction with reference to relevant regulations promulgated by national telecommunications regulatory authorities.

4. OBLIGATIONS OF THE PARTIES

4.1 The Parties shall warrant that the communication quality between networks be not lower than the communication quality of the same services in their own networks.

4.2 Under the premise of technical feasibility, when required, either Party shall provide telecommunications services which has been provided for its own customers to the other Party's customer unconditionally with service quality guaranteed.

4.3 Netcom Group shall be obliged to provide the Listed Company's auditors with the accounting records of Netcom Group and its connected persons for any connected transactions.

5. NETWORKS MANAGEMENT AND MAINTENANCE

5.1 Either Party shall give notice to the other Party six (6) months prior to its enlargement and reconstruction of its network, which may negatively affect the communication of other Party's customers.

5.2 Except for Force Majeure, either Party shall give notice to the other Party thirty (30) days prior to its adjustment of route system, relay circuit, signaling mode, station data and software version, which may negatively affect the communication of other Party's customers.

5.3 When required, either Party shall, in a timely manner, cooperate with the other Party when the latter adjusts the route system, relay circuit, signaling mode, station data and software version to ensure the communication quality between networks.

5.4 The Parties agree to perform maintenance on their own networks to assure the normal operation of the whole networks according to the applicable regulations promulgated by national telecommunications regulatory authorities from time to time.

5.5 Should there be any communication breakdown and problems, the Parties shall take effective measures to resume communication.

6. SETTLEMENT PRINCIPLES AND METHODS BETWEEN NETWORKS

6.1 Settlement relationships for domestic long distance voice services: Netcom Group and CNC China make settlement with each other domestic long distance voice services.

Settlement price for domestic long distance voice services: settlement based on voice termination - operator from whose network calls are originated makes settlement to the operator from whose network calls are terminated. The price is RMB 0.06/minute whether the calls are terminated in the network of Netcom Group or CNC China or in networks other than those of Netcom Group and CNC China. The above-mentioned rate shall be subject to adjustment at any time according to applicable standards, fixed tariffs and policies published by relevant Chinese regulatory authorities.

The Parties hereby agree that, the above provision in relation to the price of domestic long distance calls terminated in networks other than those of the Parties is effective as of April 1, 2007. Effective as of April 1, 2007, the Parties agree not to observe Article 6.1 of the Domestic Interconnection Settlement Agreement among Netcom Group, CNC China and China Netcom Group New Horizon Communications Corporation, dated September 12, 2005, where it is provided that the price is RMB 0.09/minute if domestic long distance calls are terminated in networks other than in those of Netcom Group and its operating companies.

6.2 Data processing and checking principles

Billing and settlement center of CNC China shall be responsible for data processing. If the difference between the bill of the center and billing data of both Parties (billing data difference = difference between the relevant two Parties/the averaged data of the relevant two Parties *100%) is equal to or lower than 3%, the bill of the center shall prevail. If the difference is higher than 3%, a preliminary settlement shall be made based on the bill data of the center. The Parties shall submit a written request for dispute arbitration to operational management department of CNC China within 10 working days from the 20th of each month.

Operational management department of CNC China shall give a written disposal suggestion within 3 months upon receipt of the written dispute arbitration request. The settled amount that needs adjustment shall be adjusted in the statement of account of next month.

6.3 Settlement Procedures

Place of settlement: Beijing, China

Settlement period, commence date and termination date: once per quarter, settlement and billing period (based on the ending time of calls) is from 0:00 (inclusive) of the first calendar day of the first calendar month of the relevant quarter to 0:00 (exclusive) of the third calendar month of the relevant quarter..

Method of payment: the paying Party of the month shall pay the net settlement amount to the paid Party of the month.

7. REPRESENTATIONS AND WARRANTIES

7.1 Each Party represents and warrants to the other Party that:

- (1) It is an independent legal person duly incorporated and validly existed under the laws of the PRC. It has the power and authority (including but not limited to any approval, consents or permission granted by the government departments) to sign and enforce this Agreement;
- (2) No provision in this Agreement violates the constitutive documents or the laws and regulations of PRC;
- (3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the laws and regulations of the PRC and the terms of this Agreement.

8. FORCE MAJEURE

8.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

8.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

9. CONFIDENTIALITY

9.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

10. TRANSFER

10.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

11. NON-WAIVER

11.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

12. NOTICES

12.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Parties in writing from time to time.

12.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; on the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

13. GOVERNING LAWS

13.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

14. DISPUTES RESOLUTION

14.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

15. EFFECTIVENESS OF AGREEMENT AND OTHERS

15.1 Except as otherwise provided in Article 6.1, this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

15.2 Subject to compliance with regulatory requirements in respect of the Listed Company's or related transactions and upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

15.3 This Agreement is severable, that is, if any provision of this Agreement is held to be illegal or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

15.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

Signature page:

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

INTERNATIONAL LONG DISTANCE VOICE SERVICES SETTLEMENT AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District,
Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng
District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to interconnect and settle fees with Netcom Group in its relevant telecommunications service operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding relevant issues relating to interconnection settlement between the Parties, Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) and CNC China (including branches, subsidiaries, and other controlled units) agreed hereto as follows:

1. BASIC PRINCIPLES

1.1 For the services and/or facilities provide by either Party to the other Party under this Agreement, the Party reserves the right to collect reasonable service fees based on the principle of fairness for such service and/or facilities it provides. The other Party shall make the payment for the services/or facilities provided.

1.2 The terms of services and/or facilities offered by one Party to the other under this Agreement shall not be worse than any other third party offering the same or similar services and/or facilities.

1.3 Should either Party hereunder demand for more services and/or facilities hereunder from the other Party, the other Party shall make its utmost effort to provide such services and/or facilities requested under the conditions no less favorable than that under which this Party may provide the same or similar services and/or facilities to a third party.

1.4 The agreed services and/or facilities hereunder shall fully comply with the purposes agreed upon under this Agreement and the standard set by the State.

1.5 In the event of any breach of any provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in default shall be liable for all immediate and full damages for breaching this Agreement. However, this Party shall not be held responsible for such losses in the event of Force Majeure.

1.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

1.7 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

2. INTERCONNECTION AND SETTLEMENT VARIETIES

2.1 The Parties agree to achieve interconnections between various telecommunications networks of the Parties and settle international long distance voice services as is set forth in this Agreement.

3. OBLIGATIONS OF THE PARTIES

3.1 The Parties shall warrant that the communication quality between networks be not lower than the communication quality of the same services in their own networks.

3.2 Under the premise of technical feasibility, when required, either Party shall provide telecommunications services which has been provided for its own customers to the other Party's customer unconditionally with service quality guaranteed.

3.3 Netcom Group shall be obliged to provide the Listed Company's auditors with the accounting records of Netcom Group and its connected persons for connected transactions.

4. SETTLEMENT PRINCIPLES AND METHODS BETWEEN NETWORKS

4.1 Settlement relationships for international long distance voice service: Netcom Group and CNC China make settlement with each other.

Settlement principle for international long distance voice services (see Appendix to this Agreement for detailed price):

4.1.1 Outgoing international calls: Netcom Group shall be responsible for any charges which CNC China shall pay to overseas telecommunications operators. Incomes of Netcom Group shall be distributed between Netcom Group and CNC China based on estimated cost proportion of Netcom Group and CNC China in provision of outgoing international long distance voice service after the amount of payment made by CNC China to overseas telecommunications operators has been deducted from the total income.

4.1.2 Incoming international calls: Incomes of CNC China received from overseas telecommunications operators shall be distributed between Netcom Group and CNC China based on estimated cost proportion of Netcom Group and CNC China in provision of incoming international long distance voice services after the amount of payment to Netcom Group (RMB 0.06/minute whether the calls are terminated in Netcom Group's network or terminated in other operator's network) has been deducted from the total income. The above-mentioned rate shall be subject to adjustment at any time according to applicable standards, fixed tariffs and policies published by relevant PRC regulatory authorities.

The Parties hereby agree that, the above provisions in the first paragraph of Article 4.1.2 and Article 2 of the Appendix to this Agreement, relating to the price of international long distance calls terminated in networks other than those of the Parties are effective as of April 1, 2007. Effective as of April 1, 2007, the Parties agree not to observe Article 4.1 of the International Interconnection Long Distance Voice Services Settlement Agreement, and Article 2 of its Appendix, by and between Netcom Group and CNC China, dated September 12, 2005, where it is provided that the price is RMB 0.09/minute if international long distance calls are terminated in networks other than in those of Netcom Group and its operating companies.

4.2 Data processing and checking principles

Billing and settlement center of CNC China shall be responsible for data processing. If the difference between the bill of the center and billing data of both Parties (billing data difference = difference between the relevant two Parties/the averaged data of the relevant two Parties * 100%) is equal to or lower than 3%, the bill of the center shall prevail. If the difference is higher than 3%, a preliminary settlement shall be made based on the bill data of the center. The Parties shall submit a written request for dispute arbitration to operational management department of CNC China within 10 working days from the 20th of each month.

Operational management department of CNC China shall give a written disposal suggestion within 3 months upon receipt of the written dispute arbitration request. The settled amount that needs adjustment shall be adjusted in the statement of account of next month.

4.3 Settlement Procedures

Place of settlement: Beijing, China

Settlement period, commence date and termination date: Once per quarter in principle. Since there are quite a number of uncertainties in the international business settlement characterized by different commitment periods, within the settlement period, the internal settlement of international service may be made on the basis of the completion of settlement with overseas telecommunications operators. The Parties can reach supplemental agreement on the date of settlement through consultation.

Method of payment: the paying Party of the month shall pay the net settlement amount to the paid Party of the month.

5. REPRESENTATIONS AND WARRANTIES

5.1 Each Party represents and warrants to the other Party that:

- (1) It is an independent legal person duly incorporated and validly existed under the laws of the PRC. It has the power and authority (including but not limited to any approval, consent or permission granted by the government departments) to sign and enforce this Agreement;
- (2) No provision in this Agreement violates the constitutive documents or the laws and regulations of PRC;
- (3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the laws and regulations of the PRC and the terms of this Agreement

6. FORCE MAJEURE

6.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

6.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

7. CONFIDENTIALITY

7.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

8. TRANSFER

10.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

9. NON-WAIVER

11.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

10. NOTICES

10.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

10.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; on the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

11. GOVERNING LAWS

11.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

12. DISPUTES RESOLUTION

12.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

13. EFFECTIVENESS OF AGREEMENT AND OTHERS

13.1 Except as otherwise provided in Article 4.1, this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There are no limits on the number of renewal.

13.2 Subject to compliance with regulatory requirements in respect of the Listed Company or related transactions and upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

13.3 This Agreement is severable, that is, if any provision of this Agreement is held to be illegal or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

13.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

Signature page:

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

APPENDIX: SPECIFIC SETTLEMENT PRICES FOR INTERNATIONAL LONG DISTANCE VOICESERVICE

(1) Outgoing international calls (including outgoing INMARSAT calls originated from the PRC and incoming international calls reverse settlement): Netcom Group shall make settlement to CNC China, RMB $[M+(N-M)*R]$ /minute, if $N < M$, RMB M /minute.

M: actual settle unit price for outgoing international calls of various each directions, adjusted based on openly committed period. In each direction, M=settled amount corresponding to non-committed volume/non-committed volume of outgoing calls in this direction

N: average retail price charged on customers who make outgoing international calls, subsidiaries of Netcom Group accounted respectively, adjusted once each quarter;

R: costs allocation ratio for CNC China, adjusted or confirmed yearly by the Parties based on their respective costs for outgoing international call services.

(2) Incoming international calls (including outgoing international calls reverse settlement): CNC China shall make settlement to Netcom Group, RMB $[Y+(X-Y)*R]$ /minute, if $X < Y$, RMB Y /minute.

X: average settle unit price for incoming international calls, adjusted yearly;

Y: settlement price for incoming international calls terminated in local networks (RMB 0.06/minute in the Parties' networks and in other networks,the rate shall be subject to adjustment at any time according to applicable standards, fixed tariffs and policies published by relevant PRC regulatory authorities);

R: cost allocation ratio for Netcom Group, adjusted yearly by the Parties based on their respective costs for incoming international call services.

ENGINEERING AND INFORMATION TECHNOLOGY SERVICES AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires the engineering information technology services provided by Netcom Group in order to operate telecommunications services.

Based on fair and reasonable basis, following cooperative negotiation, regarding the Project Designing, Construction and IT services provided by Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) to CNC China (including branches, subsidiaries, and other controlled units), it is hereby agreed by and between both Parties hereto as follows:

1. BASIC PRINCIPLES

1.1 For the Project Designing, Construction and IT services provided by Netcom Group to CNC China under this Agreement, Netcom Group reserves the right to collect reasonable service fees under the terms of this Agreement. CNC China shall make the payment for the services rendered.

1.2 The terms of Project Designing, Construction and IT services offered by Netcom Group under this Agreement shall not be worse than any other third party offering the same or similar services.

1.3 If Netcom Group fails to provide or fully provide the agreed Project Designing, Construction and IT services due to reasons other than its own fault, Netcom Group shall promptly inform CNC China in writing, and shall use its best endeavors to assist CNC China to find the same or similar services through other means.

1.4 The agreed Project Designing, Construction and IT services provided by Netcom Group to CNC China shall fully comply with the purposes agreed upon under this Agreement and the standards set by the State.

1.5 In the event of any breach of provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in default shall be liable for all immediate and full damages for breaching this Agreement.

1.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

2. BASIC CONTENTS OF PROJECT DESIGNING, CONSTRUCTION AND IT SERVICES

2.1 Project Designing, Construction and IT services to be provided to CNC China by Netcom Group under this Agreement mainly consist of:

(1) Project Designing, including:

Planning & designing, project survey, communication circuitry works (including plumbing works, optical fiber cables, cable works, overhead pole and route works), communication equipment works (including telephone exchange, transmission works, data and multimedia works, communication power source and air conditioning works, microwave communication works, systematic technical support works, etc.), and enterprise communication works;

(2) Project Construction, including:

Communication equipments, communication lines, communication power supply (including special air conditioning system for communication projects), communication pipeline, technical business support system;

(3) Project Supervision.

2.2 IT services to be provided to CNC China by Netcom Group under this Agreement include: office automation, software testing, network upgrading, R&D of new services, development of support system, etc.

3. PRICING PRINCIPLE

3.1 Except for the cases specified in Clause 3.2 of this section, all price and/or charging standard under the Agreement shall be determined with the reference to the market price. The "market price" means the rate

determined by the business operator and attained through market competition. The market rate shall be determined by the following order: (1) the rate charged by any independent third party providing the same kind of services in the same or surrounding area under normal situation; or (2) the rate charged by any independent third party providing the same kind of services within the PRC under normal situation.

3.2 Both Parties have agreed that when the value of any project designing or project supervision services exceeds RMB five hundred thousand (500,000), or when the value of any project construction services exceeds RMB two million (2,000,000), then the price to be determined by invitation for tenders will be used as the basis of pricing. In addition, in regard to the pricing and/or charging standard of other services under this Agreement, the price determined by invitation for tenders (i.e.: the price that is determined by the way of open invitation of bidding in accordance with the Law of the People's Republic of China on Bid Invitation and Bidding and other regulations and rules) will be used as the basis of pricing.

In the above said bid invitation, there should be at least three (3) or more service providers present in the bidding, and Netcom Group shall not be given any preferential treatment by CNC China, and CNC China will be entitled to select any independent third party to provide related services to it; however, on the premise that it is not prohibited by laws and regulations of the PRC, if the terms and conditions provided by Netcom Group are at least equally favorable as that provided by an independent third party for the same services, then CNC China may select Netcom Group as the successful bidder.

If Netcom Group is chosen as the successful bidder, the Parties shall sign specific documents for execution, which state clearly specific services required by CNC China at that time, the binding principles within this Agreement, as well as the terms and conditions for the performance of the said services.

3.3 The specific amount of service charge agreed upon under this Agreement shall from time to time be calculated by the accounting principles applicable in the PRC (if applicable).

3.4 Both Parties shall, before December 31 of every calendar year, conduct a review on the price of every item of services and facility stated in this Agreement for the next accounting year (if necessary).

4. PAYMENT OF SERVICE CHARGE

4.1 CNC China shall, based on the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and in specific execution documents, pay Netcom Group or its trustee service charge in consideration for the service provided by Netcom Group or its trustee.

4.2 If CNC China fails to pay on time the said service charge agreed upon under the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and the specific execution documents, CNC China shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to Netcom Group; and after 60 days of late payment, Netcom Group is entitled to notify CNC China the termination of services; if CNC China still fails to pay for the outstanding balance upon 30 days after receiving the written notice to terminate services, Netcom Group shall be entitled to terminate the services immediately. The suspension or termination of such services shall not in any way prejudice or affect the rights and obligations under this Agreement prior to such event.

5. RIGHTS AND OBLIGATIONS OF BOTH PARTIES

5.1 Rights and obligations for CNC China

5.1.1 Rights for CNC China

(1) CNC China (including its subsidiary, divisions, and other controlled units) has the right to receive the agreed services provided by Netcom Group;

(2) The auditor of the Listed Company has the right to inspect and examine the accounting books of Netcom Group and its connected persons in relation to the connected transactions under this Agreement..

5.1.2 Obligations for CNC China

- (1) Guarantee and/or procure its subsidiaries, branches and all other controlled units to enter into specific execution documents with Netcom Group and its subsidiaries, branches or controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (3) Pay the service charge as stated in this Agreement and all other specific execution documents;
- (4) Guarantee to pay for any damage suffered by Netcom Group or counter Party of specific execution documents that is caused by the breach of CNC China of any provisions in this Agreement and specific execution documents.

5.2 Rights and obligations of Netcom Group

5.2.1 Rights of Netcom Group

- (1) Netcom Group is entitled to the service charge agreed upon under this Agreement;
- (2) Right to provide the same or similar services to a third party, on the condition that Netcom Group continues to provide the same services agreed upon under this Agreement.

5.2.2 Obligations of Netcom Group

- (1) Guarantee and/or prompt its subsidiaries, branches and all other controlled units to enter into specific execution documents with CNC China and its subsidiaries, branches or its other controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Provide the services and monitor the services provided by its subsidiaries, branches and other controlled units at a good quality according to the provisions of this Agreement;
- (3) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (4) Guarantee to pay for any damage suffered by Party A or counter Party of specific execution documents that is caused by the breach of Party B of any provisions in this Agreement and all other specific execution documents;
- (5) Agree to provide the auditor of Listed Company the accounting books of Netcom Group and its connected persons in relation to the connections transactions under this Agreement.

5.3 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

6. PREFERENTIAL RIGHT

6.1 Unless otherwise specified, for the same services, if an independent third party cannot offer better conditions and terms to CNC China than Netcom Group, CNC China have preferential right to use the services from Netcom Group;

6.2 Netcom Group undertakes to CNC China that Netcom Group shall not offer the same or similar services stated under this Agreement to a third party at terms more favorable than those offered to CNC China;

6.3 Netcom Group has the right to provide the same or similar services to a third party, on the condition that Netcom Group continues to provide the same services agreed upon under this Agreement.

7. TERM

7.1 This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8. REPRESENTATIONS, WARRANTIES, AND UNDERTAKINGS

Each Party represents warrants and undertakes to the other Party that:

(1) It is an independent legal person existing in accordance with the laws of PRC, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);

(2) No provision in this Agreement violates the constitutive documents or the laws and regulations of PRC;

(3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the laws and regulations of the PRC and the terms of this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing (and remain as one).

11. TRANSFER OF RIGHTS AND OBLIGATIONS

11.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

12.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

13. NOTICES

13.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

13.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; on the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

14. GOVERNING LAWS

14.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

15 DISPUTES RESOLUTIONS

15.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

16. MISCELLANEOUS

16.1 Without written confirmation from both Parties, no Party can change or amend this Agreement. Upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

16.2 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, void or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

16.3 This Agreement shall be governed and interpreted in accordance with the laws of PRC.

16.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature page:

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng

Legal Representative or Authorized Representative

CHINA NETWORKS COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng

Legal Representative or Authorized Representative

MASTER SHARING AGREEMENT
BY AND BETWEEN
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
AND
CHINA NETCOM (GROUP) COMPANY LIMITED

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Whereas:

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to share services with Netcom Group in its relevant telecommunications service operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding relevant issues relating to sharing of services provided by either Party to the other Party, Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) and CNC China (including branches, subsidiaries, and other controlled units) agreed hereto as follows:

1 BASIC PRINCIPLE:

1.1 For the services and/or facilities provide by either Party to the other Party under this Agreement, the Party reserves the right to collect reasonable service fees based on the principle of fairness for such service and/or facilities it provides. The other Party shall make the payment for the services and/or facilities provided. Sharing arrangements agreed by and between the Parties in relation to sharing of service costs and income settlements are determined based on the principle of equality.

1.2 The terms of services and/or facilities offered by one Party to the other under this Agreement shall not be worse than any other third party offering the same or similar services and/or facilities.

1.3 Should either Party hereunder demand for more services and/or facilities hereunder from the other Party, the other Party shall make its utmost effort to provide such services and/or facilities requested under the conditions no less favorable than that under which this Party may provide the same or similar services and/or facilities to a third party.

1.4 If either Party fails to provide or fully provide to the other Party the services and/or facilities under this Agreement due to reasons other than its own fault, it shall promptly inform the other Party in writing, and shall use its best endeavors to assist the other Party to find the same or similar services through other means.

1.5 The agreed services and/or facilities hereunder shall fully comply with the purposes agreed upon under this Agreement and the standard set by the State.

1.6 In the event of any breach of provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in default shall be liable for all immediate and full damages for breaching this Agreement. However, this Party shall not be held responsible for such losses in the event of Force Majeure.

1.7 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

1.8 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

2 DEFINITION

2.1 Master services sharing refers to the services agreed by both Parties to be provided to or received from another Party in accordance with the terms and conditions agreed in this Agreement, including but not limited to: (1) large customer management services, network administration services, network management services and head office human resources services provided by CNC China to Netcom Group; (2) business support center services provided by either Party to another and hosting services provided by CNC China to Netcom Group in relation to the services stated in items (1) and (2) of this section; (3) premises provided by Netcom Group to CNC China and other services sharing listed by the head office.

3 LARGE BUSINESS CUSTOMERS SERVICES

3.1 CNC China shall be responsible for provisions of one-stop domestic and international services for large business customers to Netcom Group, details as follows:

- (1) establishing and optimizing service system for marketing over large business customer, being responsible for managing, organizing and coordinating marketing process for large business customer, including collection of customer information, customer relationship management and customer demands investigation and analysis, etc;
- (2) bidding competition in Netcom Group's key networking project, including business consultation on networking technologies, design of networking plan, bidding, negotiation of networking contracts, review and conclusion of contracts, etc; supporting bidding competition led by Netcom Group subsidiaries;
- (3) stipulating management measures for project implementation and related service rules for marketing over large business customer for Netcom Group; providing complete tracking, management and coordination services for inter-provincial digital and data lines; processing inter-district business for large business customer [over income and cost management], [emergency fund management] and business contract management;
- (4) bearing of Netcom Group's large business customer marketing expenses, bidding marketing expenses and partial daily expenses;
- (5) provision of technical support in nationwide networking projects, executive public relations and policy support;
- (6) product development for large business customer and market research;
- (7) settlement and collection/payment;

3.2 Obligation of Netcom Group

Netcom Group is obliged to assist CNC China in providing end-to-end services to large business customers.

3.3 Obligation of CNC China

CNC China shall provide customers with services of the quality in compliance with the customer service quality standards agreed by both Parties.

4 NETWORK ADMINISTRATION SERVICES

4.1 The network administration services provided by CNC China to Netcom Group includes:

- (1) maintenance management, version management, data deployment management and operation quality management of transmission network, telephony network (including international network and intelligent network), data network (including DDN, ATM/FR and IP) and various support network; monitoring the operation of Level I trunk network, instructing daily circuit, route and flow scheduling of inter-provincial long distance network, processing Netcom Group's reports and troubleshooting;
- (2) resource management, end-to-end scheduling management and network routing management of transmission network, telephony network, data network and various support network, and resources distribution, equipment connection, networking and development of network reconstruction plans for distance Level I trunk network;
- (3) providing periodical, or upon required by Netcom Group, network operation analysis and resource utility report of transmission network, telephony network, data network and various support network;

(4) maintenance of the following system hardware/software and data of Netcom Group: telephony network administration system, data network administration system, transmission network administration system, signaling network/synchronous network/DCN network administration system, network resource management system, administration website and maintenance website.

4.2 Obligations of Netcom Group

- (1) Netcom Group should assist CNC China in network operation administration in accordance with network administration regulations.
- (2) Netcom Group should ask services from CNC China in a planned manner, such as resources scheduling, optic fiber and circuit connection, etc.
- (3) Netcom Group should immediately provide CNC China with the network change plans and failures within the province Netcom Group located in.

4.3 Obligations of CNC China

- (1) CNC China should ensure that the network service quality is better than the relevant standards set by the Ministry of Information Industry and resource utility rate should achieve the target agreed by both Parties. The target will be stipulated in separate document.
- (2) CNC China should be available 24 hours a day and 7 days a week (24 x 7 hours) to insure real time monitor network operation and process failure complaints.
- (3) CNC China should respond to Netcom Group's general complaints and service requests within 5 working days. The serious malfunctions should be resolved in the timeframe as stipulated by the Ministry of Information Industry.
- (4) CNC China should ensure a network utility rate of 99.9%.

5 HEAD OFFICE HUMAN RESOURCES SERVICES

5.1 CNC China should provide to Netcom Group such human resources services as sharing head office administrative staff and operation management staff and hosting services regarding business, financial affairs and personnel.

6. BUSINESS SUPPORT CENTER SERVICES

6.1 CNC China should provide the following business support center services to Netcom Group:

- (1) collecting, pricing and monthly billing of international telecommunications business data and settlement with overseas providers;
- (2) collection and collection of roam data for overall network businesses, including but not limited to intelligent network (such as 300 and 800), IP card and PHS short messages, etc and inter-provincial roam billing;
- (3) settlement of overall network with other domestic providers or settlement entities;
- (4) processing internal-network settlement;

- (5) settlement between Netcom Group's provincial branches and other national telecom service providers commissioned by Netcom Group;
- (6) providing relevant organizations of Netcom Group with service data statistics report;
- (7) responsible for the billing operations of VoIP and 167 services of former Jitong Network Communications Stock Company Limited.

6.2 The business support center services offered by Netcom Group to CNC China include:

(1) Undertaking the production and distribution of various phone cards and IC cards (hereinafter referred to as "telecommunication card") over Netcom Group's backbone intelligent networks, including identification, assessment and management of qualifications of card providers and related raw material providers; responsible for inviting card providers to tender, and entering into telecommunication card procurement framework agreement; responsible for production data generation, encrypted data transmission, key production, and quality and security management of telecommunication card, as well as supervising implementation of agreement between card provider and provincial subsidiary; responsible for planning out annual theme scheme of telecommunication card, and administering design and review of contributions; responsible for directing related provincial subsidiaries in ordering and manufacturing telecommunication cards according to the annual theme scheme of telecommunication card; responsible for the conclusion, implementation of coded cards agreement, and the production thereof thereafter;

(2) Responsible for management of telecommunication card services, including the development of regulations on the production and the graphics and context design of telecommunication card; responsible for gathering business statistics of various cards and performing operational analysis;

6.3 Obligations of both Parties

(1) CNC China shall complete all international settlement, inter-networks settlement and inter-provincial settlement timely and exactly in accordance with rules enacted by the Ministry of Information Industry of State Council and inform Netcom Group as required.

(2) Netcom Group shall complete the design and production of cards printed with nominal value without falling short of the agreed time-limit, quantity and quality requirement.

(3) Netcom Group shall timely accomplish other business demands by CNC China according to the actual status of business system and network capacity.

7. OTHER SHARING SERVICES LISTED BY THE HEAD OFFICE

Netcom Group will provide CNC China with other sharing services listed by the head office, such as advertising, promotion, business hospitality, maintenance and property management etc.

8. USE OF PREMISES

8.1 Purpose of Premises

(1) Netcom Group agrees to provide its office building (including air conditioner, power supply, electronic equipments and other related facilities etc contained therein.) located at 156 Fuxingmennei Avenue, Xi Cheng District, Beijing to CNC China for its use in accordance to the requirement of CNC China.

(2) CNC China shall use above-mentioned premises as its primary office building.

8.2 Warranties and Undertakings

Netcom Group undertakes that it has the right to provide the premises mentioned above (including air conditioner, power supply, electronic equipments and other related facilities etc contained therein) to CNC China for its use. Netcom Group agrees to assume and compensate all losses of CNC China due to any failure or damage to its right under this Agreement as a result of any dispute against the ownership and/or use right of Party to such properties from any third party in any case and for any reason. Netcom Group undertakes to provide CNC China's auditors with accounting reports of connected transactions of Netcom Group and connected persons.

9 COST ALLOCATION FOR SHARED SERVICE

9.1 Both Parties agree that: the costs incurred by the large customer management services, network management services, head office human resource services provided by CNC China to Netcom Group; the business support center service provided by both Parties to each other and the site provided by Netcom Group to CNC China as well as other shared services listed by the head office should be allocated in proportion to the income of each Party (the income of Netcom Group should not include the income of its overseas subsidiaries and the Listed Company. The specific allocation proportion will be determined by the income listed in the financial statements submitted by one Party to the other Party through consultation and shall be adjusted annually considering the total assets of both Party). CNC China and Netcom Group shall be responsible for the specific cost allocation.

10 SHARING OF INCOME SETTLEMENT BETWEEN INTERNET EXCHANGE CENTER NETWORKS

10.1 Both Parties agree that: income settlement paid to Netcom Group by each relevant network operator for its connection to Netcom Group's internet backbone network in accordance with the relevant regulations provided by telecommunication authorities and access fees paid monthly by Netcom Group to the National Internet Exchange Center should be allocated in proportion to the income of each Party (the income of Netcom Group should not include the income of its overseas subsidiaries and the Listed Company. The specific allocation proportion will be determined by the income listed in the financial statements submitted by one Party to the other Party through consultation and shall be adjusted annually considering the total assets of both Party). CNC China and Netcom Group shall be responsible for the specific income sharing.

11 REPRESENTATION, WARRANTIES AND UNDERTAKINGS

11.1 Both Parties hereto have made the following statements, commitments and undertakes to each other:

- (1) it has the full right and authority to sign this Agreement and its appendixes (including but not limited to obtaining approvals, consents and permissions from relevant governmental authorities);
- (2) any terms of this Agreement and its appendixes are not in violation of the regulatory documents of each Party and the laws and regulations of the PRC;
- (3) it will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the laws and regulations of the PRC and the terms of this Agreement.

12 FORCE MAJEURE

12.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement.

However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

12.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

13 CONFIDENTIALITY

13.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

14 TRANSFER

14.1 Without prior written consent from another Party, neither Party shall transfer any rights or obligations under this Agreement

15 NON-WAIVER

15.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

16 NOTICE

16.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

16.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; on the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

17 GOVERNING LAW

17.1 This Agreement is governed by and shall be construed and executed in accordance with laws of the PRC.

18 DISPUTE RESOLUTION

18.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

19 EFFECTIVE DATE AND MISCELLANEOUS

19.1 This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

13.2 Subject to compliance with regulatory requirements in respect of the Listed Company or related transactions and upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

13.3 This Agreement is severable, that is, if any provision of this Agreement is held to be illegal or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

13.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

Signature Page:

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (Company Seal)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

CHINA NETCOM (GROUP) COMPANY LIMITED (Company Seal)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

PROPERTY LEASING AGREEMENT
BY AND BETWEEN
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
AND
CHINA NETCOM (GROUP) COMPANY LIMITED

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District,
Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng
District, Beijing, PRC

Whereas:

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to enter into property leasing arrangements with Netcom Group in its telecommunications business operations.

In this Agreement, the term "Tenant" and "Lessor" refer to, depending on particular situation, Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) or CNC China (including branches, subsidiaries, and other controlled units) , or both Parties, for this Agreement.

Pursuant to the Contract Law of the PRC as well as relevant provisions of other laws and regulations, for the purpose of clarifying their respective rights and obligations, the Parties, through cooperative negotiation, hereby enter into this Agreement as follows:

ARTICLE ONE SCOPE AND PURPOSE OF THE LEASE

1. Due to the demand of business operations, Netcom Group and CNC China agree to lease to each other the Properties owned by their respective branches, subsidiaries, affiliates and enterprises or controlled units (hereinafter collectively referred to as "Subsidiary Companies"). Netcom Group and CNC China confirm that such subsidiary companies, enterprises and units have agreed to entrust Netcom Group or CNC China to exercise the leasing rights of the Properties defined hereunder.

Netcom Group agrees to lease to CNC China the Properties owned by Netcom Group hereunder (hereinafter referred to as "Properties of Netcom Group"); and CNC China is willing to lease the Properties of Netcom Group and pay the consideration accordingly as provided hereunder. CNC China agrees to lease to Netcom Group the Properties owned by CNC China hereunder (hereinafter referred to as "Properties of CNC China"); and Netcom Group is willing to lease the Properties of CNC China and pay the consideration accordingly as provided hereunder.

2. The scope of the Properties of Netcom Group and the Properties of CNC China as referred to in the foregoing article shall be defined in the Appendix of this Agreement. Netcom Group and CNC China may make adjustment once a year to the scope of the Properties of Netcom Group and the Properties of CNC China as defined in the Appendix in accordance with the actual circumstances.

3. Both Parties agree that the Properties of Netcom Group or the Properties of CNC China they have leased shall only be used by them within the permitted scope to legally engage in business operational activities, and neither Party may lease the other Party's Properties to a third party without the other Party's written consent, and this sub-leasing party shall still be liable for the liabilities and obligations hereunder.

ARTICLE TWO TERMS OF LEASING

1. The agreed lease term of the Properties hereunder is the same as that of this Agreement, subject to item 2 of this Article.

2. The Lessor may immediately terminate the agreed lease of the Properties hereunder if the Tenant commits any of the following:

1) The Tenant, at its own discretion, sublease or sublend the Properties of the Lessor to other party without the prior consent of the Lessor (except when the Properties are subleased or sub-lent to the subsidiaries or affiliated companies of the Tenant);

2) The Tenant violates the purpose of usage as agreed by both Parties for the leasing, or uses the leased Properties to conduct any illegal activities and do harm to the public interests.

3. If, in accordance with Article Ten, the Tenant does not exercise the right of renewal but is unable to return the Properties to the Lessor upon the expiration of this Agreement due to its business operations, the Lessor shall extend the term to a period as deemed appropriate and is entitled to claiming rental from the Tenant for an amount negotiated and agreed by both Parties.

ARTICLE THREE RENTAL AND METHOD OF PAYMENT

1. Netcom Group and CNC China agree that the actual rental for the Properties leased to each other shall be determined by both Parties in the Appendix to this Agreement based on the market price or the depreciation and maintenance cost and with reference to the rental standard set by the local price authorities while taking into consideration the actual needs of the Parties (not exceeding the market price).

2. Netcom Group and CNC China agree that both Parties may sign separate execution documents with regard to the leasing issues of certain Properties of Netcom Group or certain Properties of CNC China with the purpose of specifying the applicable terms and conditions relating to such leased Properties, provided that the execution documents shall comply with the principles, compendium and terms and conditions set forth hereunder.
3. The foregoing rental shall be reviewed once a year where Netcom Group and CNC China shall negotiate to determine whether the rental needs to be adjusted as well as the actual amount of the rental after such adjustment.
4. The rental shall be settled once each quarter and the settlement date is the last day of each quarter. When the last day of the quarter happens to be Saturday, Sunday or public holiday, the settlement date shall be postponed to the first working day immediately after the holiday.
5. All tax burdens incurred by the leasing of the Properties of Netcom Group or the Properties of CNC China, and management fees and other charges levied by the state and local governments against the Properties of Netcom Group and the Properties of CNC China shall be borne by the Lessor, unless otherwise specified hereunder.

ARTICLE FOUR THE REPAIR AND MAINTENANCE OF THE PROPERTIES DURING THE LEASE TERM

The repair and maintenance of the Properties during the lease term is the Lessor's obligation, and all costs incurred for this purpose shall be borne by the Lessor. When performing necessary renovation to the leased Properties, unless otherwise specified by this Agreement, the Tenant shall consult the Lessor for any renovation involving the alterations to the main structure of the leased Properties and shall not proceed with the renovation until a written agreement is entered into. However, unless with valid reasons, the Lessor shall not refuse or delay the alterations to the main structure of the Properties requested by the Tenant. Regarding alterations, additions that do not involve the main structure of the Properties, the Tenant may perform such alterations and additions on its own and at its own expense without notice to and consent from the Lessor. Any additions or value added to the Properties as a result of renovation, alterations or additions made by the Tenant or the Lessor during the lease term shall belong to the Lessor.

ARTICLE FIVE CHANGE OF THE LESSOR

1. If the Lessor transfers the title of the leased Properties to a third party, this Agreement shall remain in force and effective to the new owner of the title of the Properties.
2. When the Lessor sells the ownership of the leased Properties, the Lessor shall notify the Tenant three months before the sale. The Tenant shall have the preferential right under the same conditions.

ARTICLE SIX THE REPRESENTATIONS AND WARRANTIES OF BOTH PARTIES

1. Both Netcom Group and CNC China hereby represent and warrant to the other Party that both Parties are established, registered and existing companies or organizations in accordance with the laws of the PRC and have full powers and authorizations (including the legal, the company's internal and other powers and authorizations):
 - 1) The powers and authorizations to own, lease, rent and operate its assets;
 - 2) The powers and authorizations to sign and implement this Agreement.
2. The Lessor hereby represents and warrants to the Tenant as follows:

- 1) The Lessor is the only lawful owner of the leased Properties and has the exclusive right to lease the said Properties to the Tenant for considerations in accordance with the provisions of this Agreement;
- 2) The leased Properties, when delivered to the Tenant for use, are in good conditions with structures complete and adequate for the Tenant to use them for the purposes set forth in this Agreement;
- 3) The Lessor undertakes that the Tenant has the right to terminate this Agreement at any time if the foregoing warranty contains any untrue statement. Meanwhile, the Lessor agrees to undertake the indemnify obligation for any economic loss and damages incurred to the Tenant by such untruth.
3. The Tenant hereby represents and warrants to the Lessor as follows:
 - 1) The Tenant shall pay the relevant rental to the Lessor in accordance with Article Three of this Agreement. If the Tenant fail to pay the said rental, the Tenant shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to the Lessor.
 - 2) During the lease term, the Tenant shall abide by the relevant laws and regulations of the PRC and it shall be the Tenant's sole responsibility to bear the consequences of security, fire and environment protection issues.
4. Netcom Group warrants to providing CNC China's auditors with the accounting records of Netcom Group and its connected persons for any connected transactions.
5. Any terms of this Agreement and its appendixes are not in violation of the regulatory documents of each Netcom Group and the law and regulations of the PRC.
6. It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of a company to be listed or listed, China Netcom Group (Hong Kong) Limited, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

ARTICLE SEVEN FORCE MAJEURE

- 1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.
- 2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

ARTICLE EIGHT BREACH OF CONTRACT

1. The failure of a Party to perform the obligations set forth by this Agreement shall be deemed in violation of the contract. The delinquent Party shall correct this noncompliance within five (5) days upon receiving from the other Party detailed notice of such violation. If after five (5) days, such violation of Agreement has not been corrected, the delinquent Party should compensate the other Party for all direct and foreseeable losses caused by such breach of contract.
2. If the Tenant's use of the leased Properties is prolonged due to the errors or mistakes of the Lessor, the agreed lease term of the Properties hereunder shall be extended accordingly.

ARTICLE NINE CONFIDENTIALITY

Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

ARTICLE TEN GOVERNING LAWS AND DISPUTES RESOLUTION

1. The execution, power, interpretation, implementation and disputes resolution of this Agreement are subject to the protection and jurisdiction of the law of the PRC.
2. Both Parties shall seek to settle matters of dispute arising from the implementation of this agreement or in connection with this agreement by cooperative negotiation. If the matters of disputes cannot be settled by negotiation, either Party has the right to resort to litigation at the people's court which has the jurisdiction over the matter.

ARTICLE ELEVEN EFFECTIVENESS OF AGREEMENT AND OTHERS

1. This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.
2. The supplementary agreements, side agreements, and documents drawn according to the principles of this Agreement are parts of this Agreement. Both Parties agree that any changes, revisions or amendments to this Agreement shall come into effect by written agreements entered into by both Parties and shall become indivisible parts of this Agreement.
3. The Agreement is made in Chinese. It is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF the Legal representatives or the authorized representatives of both Parties hereto have executed the Agreement as of the date and venue first written above.

Signature page:

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

APPENDIX

I: ITEMIZED LIST OF PROPERTIES LEASED BY NETCOM GROUP TO CNC CHINA

<u>NO.</u>	<u>NAME OF THE PROPERTY</u>	<u>USAGE</u>	<u>FULL ADDRESS</u>	<u>AREA LEASED</u>	<u>RENTALS (TOTAL)</u>	<u>NOTE</u>
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* Please indicate in the Note column if there are other special articles as applicable.

II: ITEMIZED LIST OF PROPERTIES LEASED BY CNC CHINA TO NETCOM GROUP

<u>NO.</u>	<u>NAME OF THE PROPERTY</u>	<u>USAGE</u>	<u>FULL ADDRESS</u>	<u>AREA LEASED</u>	<u>RENTALS (TOTAL)</u>	<u>NOTE</u>
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* Please indicate in the Note column if there are other special articles as applicable.

MATERIALS PROCUREMENT AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District,
Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng
District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires materials procurement service rendered by Netcom Group in its telecommunications business operations.

On the basis of equality and reasonableness, after friendly negotiation, regarding relevant materials procurement services (hereinafter referred to as the "Materials Procurement Services") and the related storage, warehousing and transportation services provided by Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) to CNC China (including branches, subsidiaries, and other controlled units). The two Parties agreed hereto as follows:

1. BASIC PRINCIPLES

1.1 In respect of the materials procurement services and the related storage, warehousing and materials procurement services provided by Netcom Group to CNC China as well as the self-operated materials sold directly from Netcom Group to CNC China under this Agreement, Netcom Group shall have the right to receive reasonable service charges or payments for materials as priced in accordance with the stipulations of this Agreement. CNC China shall fulfill its corresponding obligations of payment.

1.2 The conditions of the materials procurement services and the related storage, warehousing and materials procurement services provided by Netcom Group to CNC China as well as the self-operated materials sold directly from Netcom Group to CNC China shall not be inferior to the conditions of the same or similar services or materials that Netcom Group provides to any third party.

1.3 If Netcom Group fails to provide the materials procurement services and the related storage, warehousing and transportation services or materials under this Agreement for reasons not because of its own fault or if it fails to provide such services or materials completely, Netcom Group shall inform CNC China in writing immediately and Netcom Group shall make its best endeavour to assist CNC China in obtaining the same or similar services or materials through other channels.

1.4 In providing the materials procurement services and the related storage, warehousing and transportation services or materials provided by Netcom Group to CNC China as well as the self-operated materials sold directly from Netcom Group to CNC China under this Agreement must comply with the purposes agreed by both Parties and the relevant standards prescribed by the State.

1.5 For any loss one Party causes to the other Party under this agreement due to breach of terms of this agreement, the Party in breach should bear the responsibility of making timely and complete compensation for breach of contract to the other Party, including, but not limit to, direct or indirect losses caused to the other Party due to breach of contract. However, the Party in breach is not responsible for loss caused to the other Party due to force majeure.

1.6 In the course of either Party performing its duties under this Agreement, the other Party should provide reasonable and necessary assistance to that Party.

2. BASIC CONTENT OF MATERIALS PROCUREMENT SERVICES, DIRECT MATERIALS PROCUREMENT AND RELATED WAREHOUSING AND TRANSPORTATION SERVICES

2.1 The materials procurement services provided by Netcom Group to CNC China under this Agreement include but are not limited to:

- (1) imported telecommunications materials procurement;
- (2) domestic telecommunications materials procurement;
- (3) domestic non-telecommunications materials procurement.

The above-mentioned procurement services include tender management, technical specifications review and approval and installation services.

2.2 The products Netcom Group sells directly to CNC China are mainly cables, modems and yellow pages telephone directories, etc.

2.3 Netcom Group also provides CNC China with the storage, warehousing, transportation services related to materials procurement services and direct purchase of materials.

3. PRICING PRINCIPLES

3.1 The amount determined for the commissions for the domestic materials procurement services and the standardized charges therefor under this Agreement shall not exceed 3% of the contract volume of the relevant materials procurement.

3.2 The amount determined for the commissions for the imported materials procurement services and the standardized charges therefor under this Agreement shall not exceed 1% of the contract volume of the relevant materials procurement.

3.3 The pricing criteria in respect of part of the direct purchase of materials sold by Netcom Group to CNC China as set forth under this Agreement shall be governed by the principle in this provision and in the following order: those that are fixed by the State shall follow the government-fixed price; those that have the government guidance price shall follow the said guidance price; those that have no fixed price nor government guidance price yet have a market price shall follow the market price; those that none of the above said is applicable shall follow the pricing method agreed upon by both Parties, however, the said pricing method should be calculated with regard to the reasonable cost and reasonable profit of the service, whereby "reasonable cost" means the cost agreed by both Parties.

The "government-fixed price" follows the Pricing Law of the People's Republic of China, which is set by the governmental pricing department or other related departments based on the pricing limits and range.

The "government guidance price" follows the Pricing Law of the People's Republic of China, which provides guidance to business operators by the governmental pricing department or other related departments based on the pricing limits, basic price range and its floating range.

The "market price" means the rate determined by the business operator and attained through market competition. The market price shall be determined by the following order: (1) the rate charged by any independent third party providing the same kind of service in the same or surrounding area under normal situation; or (2) the rate charged by any independent third party providing the same kind of service within the PRC under normal situation.

3.4 The prices and/or criteria of pricing in respect of the commission for the related storage, warehousing and transportation in relation to the materials procurement services and the direct materials procurement should be determined according to the market prices. The market prices referred herein means the prices set out by the business operators on their own through the market competitions, and should be set out in the following sequence: (1) the prices charged by an independent third party in respect of providing those services under normal circumstances of transaction in its region of provision or other nearby regions; or (2) the prices charges by an independent third party in respect of providing those service under normal circumstances of transaction in the territory of PRC.

3.5 The Parties can enter into a separate execution document, which should stipulate clearly the actual services or materials in which CNC China needs at that time and they should also stipulate the binding principles, criteria and conditions under this Agreement.

3.6 The specific amount of service charge agreed upon under this Agreement shall from time to time be calculated by the accounting principles applicable in the PRC (if applicable).

3.7 Both Parties shall, before December 31 of every calendar year, conduct a review on the price of every item of services and facilities stated in this Agreement for the next accounting year (if necessary).

4. PAYMENT OF SERVICE CHARGES

4.1 CNC China shall, based on the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and in specific execution documents, pay Netcom Group or its trustee service charge in consideration for the services provided by Netcom Group or its trustee.

4.2 If CNC China fails to pay on time the said service charge agreed upon under the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and the specific execution documents, CNC China shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to Netcom Group; and after 60 days of late payment, Netcom Group is entitled to notify CNC China the termination of service; if CNC China still fails to pay for the outstanding balance upon 30 days after receiving the written notice to terminate service, Netcom Group shall be entitled to terminate the service immediately. The suspension or termination of such service shall not in any way prejudice or affect the rights and obligations under this Agreement prior to such event.

5. RIGHTS AND OBLIGATIONS OF BOTH PARTIES

5.1 Rights and Obligations for CNC China

5.1.1 Rights of CNC China

- (1) CNC China has the right to receive the agreed services provided by Netcom Group;
- (2) The auditor of the Listed Company has the right to inspect and examine the accounting books of Netcom Group and its connected persons in relation to the connected transactions under this Agreement.

5.1.2 Obligations of CNC China

- (1) Guarantee and/or procure its subsidiaries, branches and all other controlled units to enter into specific execution documents with Netcom Group and its subsidiaries, branches or controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (3) Pay the service charge as stated in this Agreement and all other specific execution documents;
- (4) Guarantee to pay for any damage suffered by Netcom Group or counter Party of specific execution documents that is caused by the breach of CNC China of any provisions in this Agreement and specific execution documents.

5.2 Rights and Obligations of Netcom Group

5.2.1 Rights of Netcom Group

- (1) Netcom Group is entitled to the service charge agreed upon under this Agreement;
- (2) Right to provide the same or similar service to a third party, on the condition that Netcom Group continues to provide the same service agreed upon under this Agreement.

5.2.2 Obligations of Netcom Group

- (1) Guarantee and/or prompt its subsidiaries, branches and all other controlled units to enter into specific execution documents with CNC China and its subsidiaries, branches or its other controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);

- (2) Provide the services and monitor the services provided by its subsidiaries, branches and other controlled units at a good quality according to the provisions of this Agreement;
- (3) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (4) Guarantee to pay for any damage suffered by CNC China or counter Party of specific execution documents that is caused by the breach of Netcom Group of any provisions in this Agreement and all other specific execution documents;
- (5) Agree to provide the auditor of the Listed Company the accounting books of Netcom Group and its connected persons in relation to the connections transactions under this Agreement.

5.3 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listed Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

6 PREFERENTIAL RIGHT

6.1 For the same services or materials, if an independent third party cannot offer better conditions and terms than Netcom Group, CNC China can grant Netcom Group preferential right.

6.2 Netcom Group undertakes to CNC China that Netcom Group shall not offer the same or similar services and materials stated under this Agreement to a third party terms more favorable than those offered to CNC China.

6.3 Netcom Group has the right to provide the same or similar service to a third party, on the condition that Netcom Group continues to provide the same services and materials agreed upon under this Agreement.

7. TERM

7.1 This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

8.1 Each Party represents warrants and undertakes to the other Party that:

- (1) It is an independent legal person existing in accordance with the laws of PRC, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);
- (2) No provision in this Agreement violates the constitutive documents or the laws and regulations of the PRC;
- (3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the law and regulations of the PRC and the terms of this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

11. TRANSFER OF RIGHTS AND OBLIGATIONS

11.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

12.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

13. NOTICE

13.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

13.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; on the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

14. GOVERNING LAWS

14.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

15. DISPUTE RESOLUTION

15.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over where such Party situates.

16. MISCELLANEOUS

16.1 Without written confirmation from both Parties, no Party can change or amend this Agreement. Upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

16.2 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, void or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

16.3 This Agreement shall be governed and interpreted in accordance with the laws of the PRC.

16.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of the both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature Page

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

ANCILLARY TELECOMMUNICATIONS SERVICES AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to acquire ancillary telecommunications services from Netcom Group in its relevant telecommunications business operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding the ancillary telecommunications service provided by Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) to CNC China (including branches, subsidiaries, and other controlled units), it is hereby agreed by and between both Parties hereto as follows:

1. BASIC PRINCIPLES

1.1 For the ancillary telecommunications services provided by Netcom Group to CNC China under this Agreement, Netcom Group reserves the right to charge reasonable service fees under the terms of this Agreement. CNC China shall make the payment for the services rendered.

1.2 The terms of ancillary telecommunications services offered by Netcom Group under this Agreement shall not be worse than any other third party offering the same or similar services.

1.3 If Netcom Group fails to provide or fully provide the agreed ancillary telecommunications services due to reasons other than its own fault, Netcom Group shall promptly inform CNC China in writing, and shall use its best endeavors to assist CNC China to find the same or similar services through other means.

1.4 The agreed ancillary telecommunications services provided by Netcom Group to CNC China shall fully comply with the purposes agreed upon under this Agreement and the standard set by the State.

1.5 In the event of any breach of provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in breach shall be liable for all immediate and full damages for breaching this Agreement.

1.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

2. BASIC CONTENTS OF THE ANCILLARY TELECOMMUNICATIONS SERVICES

2.1 The ancillary telecommunications services provided by Netcom Group to CNC China includes: to provide work force for the ancillary telecommunications services, including certain pre-sale, on-sale, and after-sale services, such as assembling, taking down, moving and repairing users' communication facilities, to act as an agent for some communications products; to print out and deliver bills, to collect telephone bills; to manufacture phone cards, etc.; to collect and reply customer requests; to provide assisting facilities for the communications rooms (e.g. air-conditioning facilities, fire alarm facilities), and maintenance of telephone booths, etc.

3. PRICING PRINCIPLE

3.1 The pricing and/or charging standard under this Agreement shall be governed by the principle in this provision and in the following order: those that are fixed by the State shall follow the government-fixed price; those that have government guidance price shall follow the said guidance price; those that have no fixed price nor government guidance price yet have a market price shall follow the market price; those that none of the above said is applicable shall follow the pricing method agreed upon by both Parties, however, the said pricing method shall be calculated with regard to the reasonable cost and reasonable profit of the service, whereby "reasonable cost" means the cost agreed by both Parties.

The "government-fixed price" follows the Pricing Law of the People's Republic of China, which is set by the governmental pricing department or other related departments based on the pricing limits and range.

The "government guidance price" follows the Pricing Law of the People's Republic of China, which provides guidance to business operators by the governmental pricing department or other related departments based on the pricing limits, basic price range and its floating range.

The "market price" means the price determined by the business operator and attained through market competition. The market price shall be determined by the following order: (1) the rate charged by any independent third party providing the same kind of service in the same or surrounding area under normal

situation; or (2) the rate charged by any independent third party providing the same kind of service within the PRC under normal situation.

3.2 The specific amount of service charge agreed upon under this Agreement shall from time to time be calculated by the accounting principle applicable in the PRC (if applicable).

3.3 Both Parties shall, before December 31 of every calendar year, conduct a review on the price of every item of service and facility stated in this Agreement for the next accounting year (if necessary).

3.4 It is expected that from time to time, both Parties will execute specific documents relating to the service provided whenever necessary; those specific executing documents should state the specific services required by CNC China, and state all the principles, standards and provisions, and terms that are legally binding under this Agreement.

4. PAYMENT OF SERVICE CHARGE

4.1 CNC China shall, based on the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and in specific execution documents, pay Netcom Group or its trustee service charge in consideration for the services provided by Netcom Group or its trustee.

4.2 If CNC China fails to pay on time the said service charge agreed upon under the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and the specific execution documents, CNC China shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to Netcom Group; and after 60 days of late payment, Netcom Group is entitled to notify CNC China the termination of services; if CNC China still fails to pay for the outstanding balance upon 30 days after receiving the written notice to terminate services, Netcom Group shall be entitled to terminate the services immediately. The suspension or termination of such services shall not in any way prejudice or affect the rights and obligations under this Agreement prior to such event.

5. RIGHTS AND OBLIGATIONS OF BOTH PARTIES

5.1 Rights and Obligations of CNC China

5.1.1 Rights of CNC China

- (1) CNC China has the right to receive the agreed service provided by Netcom Group;
- (2) The auditor of the Listed Company has the right to inspect and examine the accounting books of Netcom Group and its connected persons in relation to the connected transactions under this Agreement.

5.1.2 Obligations of CNC China

- (1) Guarantee and/or procure its subsidiaries, branches and all other controlled units to enter into specific execution documents with Netcom Group and its subsidiaries, branches or controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (3) Pay the service charge as stated in this Agreement and all other specific execution documents;
- (4) Guarantee to pay for any damage suffered by Netcom Group or counter Party of specific execution documents that is caused by the breach of CNC China of any provisions in this Agreement and specific execution documents.

5.2 Rights and Obligations of Netcom Group

5.2.1 Rights of Netcom Group

- (1) Netcom Group is entitled to the service charge agreed upon under this Agreement;
- (2) Right to provide the same or similar services to a third party, on the condition that Netcom Group continues to provide to CNC China the same services agreed upon under this Agreement.

5.2.2 Obligations of Netcom Group

- (1) Guarantee and/or prompt its subsidiaries, branches and all other controlled units to enter into specific execution documents with CNC China and its subsidiaries, branches or its other controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Provide the services and monitor the services provided by its subsidiaries, branches and other controlled units at a good quality according to the provisions of this Agreement;
- (3) Coordinate with all relating matters with regard to the above mentioned specific execution documents;
- (4) Guarantee to pay for any damage suffered by CNC China or counter Party of specific execution documents that is caused by the breach of Netcom Group of any provisions in this Agreement and all other specific execution documents;
- (5) Agree to provide the auditor of the Listed Company the accounting books of Netcom Group and its connected persons in relation to the connections transactions under this Agreement.

5.3 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listed Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

6. PREFERENTIAL RIGHT

6.1 For the same service, if an independent third party cannot offer better conditions and terms than Netcom Group, CNC China can grant Netcom Group preferential right.

6.2 Netcom Group undertakes to CNC China that Netcom Group shall not offer the same or similar services stated under this Agreement to a third party terms more favorable than those offered to CNC China.

6.3 Netcom Group has the right to provide the same or similar service to a third party, on the condition that Netcom Group continues to provide the same service agreed upon under this Agreement.

7. TERM

7.1 This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

8.1 Each Party represents warrants and undertakes to the other Party that:

- (1) It is an independent legal person existing in accordance with the laws of PRC, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);
- (2) No provision in this Agreement violates the constitutive documents or the laws and regulations of the PRC;
- (3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the law and regulations of the PRC and the terms of this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

11. TRANSFER OF RIGHTS AND OBLIGATIONS

11.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

12.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

13. NOTICE

13.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

13.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; three days after the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

14. GOVERNING LAWS

14.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

15 DISPUTE RESOLUTION

15.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

16. MISCELLANEOUS

16.1 Without written confirmation from both Parties, no Party can change or amend this Agreement. Upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

15.2 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, void or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

15.3 This Agreement shall be governed and interpreted in accordance with the laws of PRC.

15.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of the both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature Page

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng

Legal Representative or Authorized Representative

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng

Legal Representative or Authorized Representative

SUPPORT SERVICES AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to acquire support services from Netcom Group in its relevant telecommunications business operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding the support services provided by Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) to CNC China (including branches, subsidiaries, and other controlled units), it is hereby agreed by and between both Parties hereto as follows:

1. BASIC PRINCIPLES

1.1 For the support services provided by Netcom Group to CNC China under this Agreement, Netcom Group reserves the right to charge reasonable service fees under the terms of this Agreement. CNC China shall make the payment for the services rendered.

1.2 The terms of support services offered by Netcom Group under this Agreement shall not be worse than any other third party offering the same or similar services.

1.3 If Netcom Group fails to provide or fully provide the agreed support services due to reasons other than its own fault, Netcom Group shall promptly inform CNC China in writing, and shall use its best endeavors to assist CNC China to find the same or similar services through other means.

1.4 The agreed support services provided by Netcom Group to CNC China shall fully comply with the purposes agreed upon under this Agreement and the standard set by the State.

1.5 In the event of any breach of provision by either Party under this Agreement that leads to any damage suffered by the other Party, the Party in breach shall be liable for all immediate and full damages for breaching this Agreement.

1.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

2. BASIC CONTENTS OF THE SUPPORT SERVICES

2.1 The support services provided by Netcom Group to CNC China include:

Catering services, equipment hiring services (excluding facilities/establishments covered by the Telecommunications Facilities Leasing Agreement), vehicles services, medical care, labor and manpower services, safety and security, hotel services, conferencing services, gardening (forestation), decoration and renovation, sale of commodities, contracting of infrastructure development, maintenance of equipment, marketing development, technical support, research and development, cleaning services, car parking services, staff training, storage and warehousing (such as storing the relevant telecommunications equipment, including parts and electric circuits), advertisements (such as production and publishing the advertisements of CNC China at the media of Netcom Group) and promotion, printing, property management, etc.

3. PRICING PRINCIPLE

3.1 The pricing and/or charging standard under this Agreement shall be governed by the principle in this provision and in the following order: those that are fixed by the State shall follow the government-fixed price; those that have the government guidance price shall follow the said guidance price; those that have no fixed price nor government guidance price yet have a market price shall follow the market price; those that none of the above said is applicable shall follow the pricing method agreed upon by both Parties, however, the said pricing method shall be calculated with regard to the reasonable cost and reasonable profit of the service, whereby "reasonable cost" means the cost agreed by both Parties.

The "government-fixed price" follows the Pricing Law of the People's Republic of China, which is set by the governmental pricing department or other related departments based on the pricing limits and range.

The "government guidance price" follows the Pricing Law of the People's Republic of China, which provides guidance to business operators by the governmental pricing department or other related departments based on the pricing limits, basic price range and its floating range.

The "market price" means the rate determined by the business operator and attained through market competition. The market price shall be determined by the following order: (1) the rate charged by any independent third party providing the same kind of service in the same or surrounding area under normal

situation; or (2) the rate charged by any independent third party providing the same kind of service within the PRC under normal situation.

3.2 The specific amount of service charge agreed upon under this Agreement shall from time to time be calculated by the accounting principle applicable in the PRC (if applicable).

3.3 Both Parties shall, before December 31 of every calendar year, conduct a review on the price of every item of services and facility stated in this Agreement for the next accounting year (if necessary).

3.4 It is expected that from time to time, both Parties will execute specific documents relating to the services provided whenever necessary; those specific execution documents should state the specific services required by Netcom Group, and state all the principles, standards and provisions, and terms that are legally binding under this Agreement.

4. PAYMENT OF SERVICE CHARGE

4.1 CNC China shall, based on the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and in specific execution documents, pay Netcom Group or its trustee service charge in consideration for the services provided by Netcom Group or its trustee.

4.2 If CNC China fails to pay on time the said service charge agreed upon under the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and the specific execution documents, CNC China shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to Netcom Group; and after 60 days of late payment, Netcom Group is entitled to notify CNC China the termination of services; if CNC China still fails to pay for the outstanding balance upon 30 days after receiving the written notice to terminate services, Netcom Group shall be entitled to terminate the services immediately. The suspension or termination of such services shall not in any way prejudice or affect the rights and obligations under this Agreement prior to such event.

5. RIGHTS AND OBLIGATIONS OF BOTH PARTIES

5.1 Rights and Obligations of CNC China

5.1.1 Rights of CNC China

- (1) CNC China has the right to receive the agreed service provided by Netcom Group;
- (2) The auditor of the Listed Company has the right to inspect and examine the accounting books of Netcom Group and its connected persons in relation to the connected transactions under this Agreement.

5.1.2 Obligations of CNC China

- (1) Guarantee and/or procure its subsidiaries, branches and all other controlled units to enter into specific execution documents with Netcom Group and its subsidiaries, branches or controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (3) Pay the service charge as stated in this Agreement and all other specific execution documents;
- (4) Guarantee to pay for any damage suffered by Netcom Group or counter Party of specific execution documents that is caused by the breach of CNC China of any provisions in this Agreement and specific execution documents.

5.2 Rights and Obligations of Netcom Group

5.2.1 Rights of Netcom Group

- (1) Netcom Group is entitled to the service charge agreed upon under this Agreement;
- (2) Right to provide the same or similar service to a third party, on the condition that Netcom Group continues to provide to CNC China the same service agreed upon under this Agreement.

5.2.2 Obligations of Netcom Group

- (1) Guarantee and/or prompt its subsidiaries, branches and all other controlled units to enter into specific execution documents with CNC China and its subsidiaries, branches or its other controlled units in relation to this Agreement and/or any supplementary agreement of this Agreement (if any);
- (2) Provide the services and monitor the services provided by its subsidiaries, branches and other controlled units at a good quality according to the provisions of this Agreement;
- (3) Coordinate with all relating matters with regard to the abovementioned specific execution documents;
- (4) Guarantee to pay for any damage suffered by CNC China or counter Party of specific execution documents that is caused by the breach of Netcom Group of any provisions in this Agreement and all other specific execution documents;
- (5) Agree to provide the auditor of the Listed Company the accounting books of Netcom Group and its connected persons in relation to the connections transactions under this Agreement.

5.3 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

6. PREFERENTIAL RIGHT

- 6.1 For the same service, if an independent third party cannot offer better conditions and terms than Netcom Group, CNC China can grant Netcom Group preferential right.
- 6.2 Netcom Group undertakes to Netcom Group that Netcom Group shall not offer the same or similar services stated under this Agreement to a third party terms more favorable than those offered to CNC China.
- 6.3 Netcom Group has the right to provide the same or similar services to a third party, on the condition that Netcom Group continues to provide the same service agreed upon under this Agreement.

7. TERM

7.1 This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

8.1 Each Party represents warrants and undertakes to the other Party that:

(1) It is an independent legal person existing in accordance with the laws of PRC, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);

(2) No provision in this Agreement violates the constitutive documents or the laws and regulations of the PRC;

(3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the law and regulations of the PRC and the terms of this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

11. TRANSFER OF RIGHTS AND OBLIGATIONS

11.1 Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

12.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

13. GOVERNING LAWS

13.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

14 NOTICE

14.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Party in writing from time to time.

14.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; three days after the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

15. DISPUTE RESOLUTION

15.1 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

16. MISCELLANEOUS

16.1 Without written confirmation from both Parties, no Party can change or amend this Agreement. Upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

16.2 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, void or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

16.3 This Agreement shall be governed and interpreted in accordance with the laws of PRC.

16.4 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of the both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature Page

CHINA NETCOM (GROUP) COMPANY LIMITED (SEAL)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

TELECOMMUNICATIONS FACILITIES LEASING AGREEMENT
BY AND BETWEEN
CHINA NETCOM (GROUP) COMPANY LIMITED
AND
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing, People's Republic of China ("PRC") by and between the following two Parties:

(1) Party A: China Network Communications Group Corporation ("Netcom Group")

Address: No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

(2) Party B: China Netcom (Group) Company Limited ("CNC China")

Address: Building C, No. 156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

WHEREAS,

(1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;

(2) CNC China is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC and is ultimately controlled by Netcom Group through China Netcom Group Corporation (Hong Kong) Limited ("Listed Company"), a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange and New York Stock Exchange. CNC China is approved by the Ministry of Information Industry of the PRC to operated relevant telecommunications services in Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mogolia and Shanxi;

(3) CNC China desires to use certain telecommunications facilities of Netcom Group in its relevant telecommunications business operations.

Based on fair and reasonable basis, following cooperative negotiation, regarding the leasing of the telecommunications facilities provided by Netcom Group (including branches, subsidiaries, and other controlled units, but excluding branches, subsidiaries and other controlled units of the Listed Company) to CNC China (including branches, subsidiaries, and other controlled units), the Parties agreed hereto as follows:

1. LEASING OF TELECOMMUNICATIONS FACILITIES

1.1 It is mutually agreed between both Parties that CNC China leases from Netcom Group international telecommunications channel gateways (including International Backhaul landing stations, International Ground-Cable entry stations, landing or domestic extension terminals and Earth-Station in the International satellites network), international telecommunications service gateways (including International Network Bureau for Telecommunications, International Telecommunications Network Relay Stations, International Network Bureau for ATM/FR, DDN and IP), international Submarine Cable capacities, international land cable resources and international satellite resources (“International Telecommunications Resources”) in addition to the inter-provincial optic fibers (“Inter-Provincial Optic-Fibers”) owned by Netcom Group and located in areas covered by CNC China’s business operation and other resources and facilities (collectively referred to as “Telecommunications Resources and Facilities”) that CNC China needs in its business operations.

2. FUNDAMENTAL PRINCIPLES

2.1 Netcom Group leases to CNC China the Telecommunications Resources and Facilities according to this Agreement as a paid transaction between two enterprises engaging in economic activities. Netcom Group is entitled to demand reasonable charges for the lease of such resources and facilities according to fair and reasonable principles; CNC China shall perform its duty in making payments.

2.2 Netcom Group shall offer the leasing of communication resources and facilities to CNC China at terms not less favorable to the terms offered to any third party for the leasing of the same or similar resources and facilities.

2.3 Should CNC China demand Netcom Group to provide additional resources and/or facilities as detailed in this Agreement, Netcom Group shall use its best endeavor to fulfill the needs of CNC China in providing the demanded facilities. The terms offered to CNC China in providing such additional resources and/or facilities shall not be less favorable to terms offered to any third party for the leasing of the same or similar resources and/or facilities.

2.4 Not owing to the fault of Netcom Group, should Netcom Group fail to provide part or all of the resources and/or facilities as detailed in the Agreement, Netcom Group shall inform CNC China promptly in writing. Netcom Group shall use its best endeavor to assist CNC China in obtaining the same or similar resources and/or facilities by other means.

2.5 The resources and/or facilities to be provided as detailed in this Agreement shall be made in accordance with the agreement of both Parties with respect to the usage of resources and/or facilities and also to the compliance of the relevant regulations of the State.

2.6 With regards to related transactions Netcom Group promises to provide the accounting records of Netcom Group and other related Parties to the auditors of the Listed Company.

2.7 Should either Party breach this Agreement and cause the other Party to incur loss, the Party in breach shall undertake to compensate to the other Party promptly and entirely for the breach of contract (including but not limited to the direct or indirect loss incurred by the other Party due to the breach of contract). If the loss to the other Party is caused by Force Majeure then the defaulting Party shall not incur responsibility.

2.8 When either Party to this Agreement performs its duty according to this Agreement, the other Party shall give necessary and reasonable assistance to the performing Party.

2.9 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, CNC China, being a subsidiary of the Listing Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

3. ELEMENTARY CONTENT OF THE LEASING OF TELECOMMUNICATIONS RESOURCES AND FACILITIES

3.1 Please refer to Appendix 1 for the scope, type, and quantity of CNC China's lease of International Telecommunications resources owned by Netcom Group.

3.2 Please refer to Appendix 2 for the scope, type, and quantity of CNC China's lease of Inter-Provincial Optic Fibers owned by Netcom Group.

3.3 Please refer to Appendix 3 for the scope, type, and quantity of CNC China's lease of other telecommunications resources and facilities owned by Netcom Group.

3.4 Depending on the actual situation, both Parties can adjust on an annual basis the scope, type, and quantity for the leased international telecommunications resources and inter-provincial optic fiber as detailed in the Appendices.

4. OBLIGATIONS OF THE PARTIES

4.1 CNC China is responsible for its own repairing and incurring the cost of repair according to the regulations and standards for the leased International Telecommunications Resources and Inter-Provincial Optics Fibers.

4.2 The Parties shall decide through consultation that either CNC China or Netcom Group will be responsible for maintenance of part or all of the resources and facilities set out in Appendix 3 and CNC China will bear the maintenance expense (if not otherwise agreed by the Parties); If it is decided that Netcom Group shall be responsible for maintenance of part or all of the resources and facilities set out in Appendix 3, CNC China shall reimburse relevant expenses incurred during the maintenance of such telecommunications facilities by Netcom Group.

4.3 CNC China shall use the leased Telecommunications Resources and Facilities in a reasonable way. Within the duration of this Agreement and within the scope of application of laws, CNC China has the right to lease out Telecommunications Resources and Facilities to third party during the normal leasing of network elements. The leasing fees concerned shall be set according to the relevant state regulations in accordance with the principles of fairness and reasonableness.

4.4 Should CNC China need to interrupt the Telecommunications Resources and Facilities due to reasons connected to repair, CNC China shall inform Netcom Group in advance within a reasonable time.

5. QUALITY ASSURANCE

5.1 Netcom Group shall ensure that the quality of the leased Telecommunications Resources and Facilities comply with the standards and regulations of the State.

5.2 CNC China shall ensure that the equipments for connections to the Telecommunications Resources and Facilities comply with the quality standard and technological requirements stipulated by the State Regulatory Department.

6. COSTS AND PAYMENTS

6.1 The lease charges for CNC China's leasing of Telecommunications Resources and Facilities shall be equivalent to the annual depreciation cost of such Telecommunications Resources and Facilities. Such cost shall not be higher than the market price.

6.2 Within 3 months after the end of each calendar year, both Parties shall examine (if necessary) the costs incurred for that year for Telecommunications Resources and Facilities provided according to this Agreement. The discrepancies (if any) shall be adjusted in next year's examination.

6.3 The charges to be paid in accordance with Article 4.2 of this Agreement shall follow the market price; those having no market price shall follow the pricing method agreed upon by both Parties, however, the said pricing method shall be calculated with regard to the reasonable cost and reasonable profit of the service, whereby "reasonable cost" means the cost agreed by both Parties.

6.4 CNC China shall pay lease charges to Netcom Group before 10th of the last month of each season. CNC China shall provide Netcom Group with a detailed list of the lease charges of last season and other charges as stated in Article 6.3 of this Agreement. CNC China shall pay the balance of lease charges, deducting the charges stated in Article 6.3 of this Agreement, to Netcom Group. Netcom Group shall deliver the bill to CNC China upon receipt of the balance. Should there be objections from either Party, adjustments shall be made in the following season after confirmation from both Parties.

6.5 Should CNC China delays in payment it shall pay a late payment charge to Netcom Group at a rate of 0.05% of the amount due for each day of delay.

7. TERM

This Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals. This Agreement shall be effective from January 1, 2008 to December 31, 2010. If CNC China wishes to renew this Agreement and notifies Netcom Group with 3 month's notice, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8 REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

8.1 Each Party represents warrants and undertakes to the other Party that:

- (1) It is an independent legal person existing in accordance with the laws of PRC, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);
- (2) No provision in this Agreement violates the constitutive documents or the laws and regulations of the PRC;
- (3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the law and regulations of the PRC and the terms of this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 The events constituting a Force Majeure relates to events which cannot be reasonably foreseen, avoided, and overcome on an objective basis.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third party information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

11. TRANSFER OF RIGHTS AND DUTIES

Without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges shall not hinder the exercise of such rights, power or privileges of this Party in the future.

13. NOTICES

13.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Parties in writing from time to time.

13.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; three days after the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

14. GOVERNING LAWS

14.1 This Agreement shall be governed, interpreted and implemented in accordance with laws of the PRC.

15. DISPUTE RESOLUTION

In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

16. MISCELLANEOUS

16.1 Without written confirmation from both Parties, no Party can change or amend this Agreement. Upon the agreement of both Parties, both Parties can amend this Agreement or enter into supplementary agreement to this Agreement. The amendments or supplementary agreements of this Agreement shall come into effect once signed by the legal representatives or authorized representatives of both Parties and affixed with their official seals.

16.2 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, void or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

16.3 The appendix to this Agreement forms a part to this Agreement; both the Agreement and the appendix to this Agreement have equal legal status.

16.4 This Agreement shall be governed and interpreted in accordance with the laws of PRC.

16.5 This Agreement is made into two (2) duplicate originals. Each Party holds one (1) copy, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of the both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature page:

CHINA NETWORK COMMUNICATIONS GROUP CORPORATION

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

CHINA NETCOM (GROUP) COMPANY LIMITED

By: /s/ Zuo Xunsheng
Legal Representative or Authorized Representative

APPENDIX I:

List of international telecommunications resources to be lease

APPENDIX II:

List of inter-provincial optic fiber to be leased

APPENDIX III:

List of other telecommunications resources and facilities to be leased

INFORMATION AND COMMUNICATIONS TECHNOLOGY AGREEMENT
BY AND BETWEEN
CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
AND
CHINA NETCOM GROUP SYSTEM INTEGRATION LIMITED CORPORATION

This Agreement is made and entered into on November 6, 2007 in Beijing by and between the following two parties (hereinafter referred to as “both Parties” or “Party A and Party B”):

Party A: China Network Communications Group Corporation, a state owned enterprise organized existing under the laws of the People’s Republic of China (“PRC”)

Address: Building C, No.156, Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Party B: China Netcom Group System Integration Limited Corporation, a limited liability company organized existing under the laws of the PRC

Address: No.1, Zhonghe Street, Beijing Economic and Technology Development District, Beijing, PRC

Whereas:

- (1) Party B is a company ultimately controlled by Party A through the Listed Company and China Netcom (Group) Company Limited.
- (2) The Listed Company is the main provider on fixed-line telephone, broadband, other internet-related services, and business and data communication services in 10 provinces in northern China, including Beijing, Tianjing, Hebei, Henan, Shandong, Liaoning, Hei Longjiang, Ji Lin, Nei Menggu and Shanxi.
- (3) Party A owns and operates fixed-line telecommunication network, and provides telecommunication services on fixed-line telephone, broadband, and other internet-related telecommunications services in all provinces of the PRC other than Listed Company’s northern and southern service area.

(4) Party A and Party B coordinate to provide information technology services for external clients regarding system integration services, software development services, product sales and distribution related services, operational maintenance services, and consultancy services in the PRC.

(5) Prior to the date of this Agreement, Party A and the Listed Company, through their relevant subsidiaries, have been providing Information Technology Service to external clients in China. Pursuant to basic principles and pricing principles provided in Article 4 and Article 5 of this Agreement, Party A and the Listed Company, along with their relevant subsidiaries, agree to provide Services listed in Article 3.1 and Article 3.2 of this Agreement to each other.

(6) Party A and its relevant subsidiaries, in day-to-day businesses, need relevant supporting Services provided by Party B and its relevant subsidiaries.

(7) Party B and its relevant subsidiaries, in day-to-day businesses, need relevant supporting Services provided by Party A and its relevant subsidiaries.

On equal and fair basis, both Party A and Party B agree to the following agreement after adequate negotiation:

1. DEFINITION

Unless otherwise provided or required, the following expressions have the meanings set forth below:

“Listed Company” means China Netcom Group Corporation (Hong Kong) Limited, a company incorporated and existing under laws of Hong Kong and listed on the Hong Kong Stock Exchange and the New York Stock Exchange;

“Services” means all kinds of services provided under Article 3 of this Agreement;

“Service Receiver” means the Party and its relevant subsidiaries that receive the Services provided by Service Provider;

“Market Price” means the price determined by the business operator and attained through market competition. The market price shall be determined by the following order: (1) the price charged by any independent third party providing the same kind of services in the same or surrounding area under normal situation; or (2) the price charged by any independent third party providing the same kind of services within China under normal situation;

“Service Provider” means the Party and its relevant subsidiaries that provide Services to the Service Receiver;

“State Price” means price set by the governmental pricing department or other related departments based on the pricing limits and range under the Pricing Law of the People’s Republic of China;

“Government Guidance Price” means price set by business operators following guidance provided by the governmental pricing department or other related departments based on the pricing limits, basic price range and its floating range under the Pricing law of the People’s Republic of China;

“China” means People’s Republic of China, excluding Hong Kong, Macao, and Taiwan for the purpose of this Agreement;

“Hong Kong” means Hong Kong Special Administrative Region of People’s Republic of China; and

“Listing Rules” means the securities listing rules of the Hong Kong Stock Exchange.

2. SERVICES PROVISION AND RECEPTION

2.1 Party A agrees to urge its relevant subsidiaries to provide relevant Services to Party B and its relevant subsidiaries pursuant to terms and conditions of this Agreement as the Service Provider. Party B agrees to urge its relevant subsidiaries to receive such Services pursuant to the terms and conditions of this Agreement. In the meantime, Party B agrees to urge its relevant subsidiaries to provide relevant Services to Subsidiaries of Party B pursuant to the terms and conditions of this Agreement as Service Providers, and Party A agrees to urge its subsidiaries appointed by it to receive such Services pursuant to the terms and conditions of this Agreement as Service Receivers. Both provision and reception of such services are non-exclusive.

3. CONTENTS OF THE SERVICES

3.1 Under this Agreement, Party A and its relevant subsidiaries shall provide the following Services as Service Providers:

3.1.1 Construction and Installation Supporting Services

Construction and Installation Supporting Services include, but not limited to, providing project planning and designing, exploration, construction, supervision and testing services according to individual requirement, and installing cables, cabinets, network cabling, terminal equipments, technology business supporting system, system maintenance, and the entire service process for meeting certain usage requirements.

3.2 Under this Agreement, Party B and its relevant subsidiaries shall provide the following Services as Service Providers:

3.2.1 System Integration Services

Including, but not limited to, the entire service process of integrating software, hardware and network by certain functions and usage requirements for purpose of realizing certain functions and meeting certain usage requirements according to individual requirements. The contents of system integration services include, but not limited to, designing, installation and collocation, project construction, installation and collocation of supporting software, network adjustment and testing, system joint adjustment, and application development.

3.2.2 Software Development

Including, but not limited to, the entire service process of developing certain application software by using basic operating system, data room and development tools for purpose of realizing certain functions and meeting certain usage requirements according to individual requirements.

3.2.3 Product Sales and Distribution Related Services

Including the sale of software products and all kinds of hardware equipment products produced by a third party to Party A or its relevant subsidiaries.

3.2.4 Operational Maintenance Services

Including, but not limited to, providing maintenance and relevant consultancy services regarding the structure, process, software and hardware of the IT system, and maintenance of all kinds of network system and business platforms.

3.2.5 Consultancy Services

Including, but not limited to, providing project research and development services, providing solutions for information systems and communication systems, etc., and providing evaluation and testing services for all kinds of software and hardware products, and platforms and systems.

3.2.6 Leasing Services

Including, but not limited to, providing leasing services regarding network, equipments and application systems according to individual requirements.

4. BASIC PRINCIPLES

4.1 For the Services provided by the Service Provider to the Service Receiver under this Agreement, the Service Provider reserves the right to charge reasonable service fees under the terms of this Agreement. The Service Receiver shall make the payment for the Services rendered.

4.2 The terms of Services offered by the Service Provider under this Agreement shall not be worse than the same or similar services it offers to any other third party.

4.3 Services provided under this Agreement shall meet the standards required by the State, if applicable.

4.4 Under conditions of not violating the State's prohibitive regulations, the Service Provider may entrust a third party, including its subsidiaries, affiliates and related companies, to provide certain specific Services under this Agreement to the Service Receiver on behalf of the Service Provider. However, the Service Provider shall ensure that such third party has the required qualifications required by the State, that the Service standard provided by such third party is not worsen than the standard undertaken by it, and that it takes ultimate and all the responsibilities for all the obligations therefore raised.

4.5 In the event of any breach of this Agreement by either Party that leads to any damage suffered by the other Party, the Party in breach shall be liable for all immediate and full damages for breaching this Agreement. However, In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement.

4.6 Both Parties shall provide all reasonable and essential assistance to the other Party for the purpose of fulfilling the obligations set out in this Agreement.

4.7 Under conditions of compliance of this Agreement, the relevant subsidiaries of Party A and Party B may sign specific execution documents regarding the provision of certain Services within their authorized scope, and may agree on the specific content, standard, scope, method, or any other specific requirement of the Services. But such agreement shall not go beyond the content of this Agreement and shall not have any conflict with this Agreement.

5. PRICING PRINCIPLE

5.1 The pricing or charging standard under this Agreement shall be governed by the principle in this provision and in the following order: those that are fixed by the State shall follow the Government-Fixed

Price; those that have the Government Guidance Price shall follow the said guidance price; those that have no fixed price nor government guidance price yet have a Market Price shall follow the Market Price.

5.2 Party A and Party B agrees that if the Market Price is followed due to lack of fixed price or government guidance price, when the contract value of any construction, installation and supporting services provided by Party A and its relevant subsidiaries to Party B and its relevant subsidiaries exceeds RMB 300 thousand yuan, a bidding process must be conducted to settle the price, which means that the pricing basis is to settle the price by holding a publicly bidding event in accordance with the Bidding Law of People's Republic of China.

5.3 Party A and Party B agree that if the Market Price is followed due to lack of fixed price or government guidance price, when the contract value of any system integration, software development, operational maintenance, consultancy and leasing services provided by Party B and its relevant subsidiaries to Party A and its relevant subsidiaries exceeds RMB 500 thousand yuan, or the contract value of any single product sales and distribution related services exceeds RMB 2 million yuan, a bidding process must be conducted to settle the price, which means that the pricing basis is to settle the price by holding a publicly bidding event in accordance with the Bidding Law of People's Republic of China.

5.4 Under conditions of not violating the laws of China, for the same kind of Services, if an independent third party cannot offer better conditions and terms to the other Party, one Party have preferential right to use the Services from the other Party.

5.5 Both Parties will sign the specific execution documents separately if one Party of this Agreement is successful in the bidding, and such execution documents must carry the terms regarding specific services needed, as well as the binding principles, terms and conditions.

5.6 The specific amount of service charge agreed upon under this Agreement shall from time to time be calculated by the accounting principles applicable in China (if applicable).

5.7 Both Parties shall, before December 31 of every calendar year, conduct a review on the price of every item of services and facilities stated in this Agreement for the next accounting year (if necessary).

6. PAYMENT OF SERVICE CHARGE

6.1 The Service Receiver shall, based on the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and in specific execution documents, pay the Service Provider service charge in consideration for the Services provided by the Service Provider.

6.2 If the Service Receiver fails to pay on time the said service charge agreed upon under the provisions of this Agreement, any supplementary agreement of this Agreement (if any), and the specific execution documents, the Service Receiver shall, for each 1 day (calendar day, and the same applies below) late, pay a late charge penalty of 0.05% of the outstanding balance to the Service Provider; and after 60 days of late payment, the Service Provider is entitled to notify the Service Receiver the termination of Services; if the Service Receiver still fails to pay for the outstanding balance upon 30 days after receiving the written notice to terminate Services, the Service Provider shall be entitled to terminate the Services immediately. The suspension or termination of such Services shall not in any way prejudice or affect the rights and obligations under this Agreement prior to such event.

7. REPRESENTATIONS, WARRANTIES, AND UNDERTAKINGS

7.1 Each Party represents, warrants and undertakes to the other Party that this Agreement is legitimate, effective, and equally binding on both Parties.

7.2 Each Party of this Agreement warrants and undertakes to the other Party that:

(1) It is an independent legal person existing in accordance with the laws of China, and have the power and authority (including but not limited to any approval, consents or permission granted by the government departments to enter into and perform this Agreement);

(2) No provision in this Agreement violates the constitutive documents or the laws and regulations of China;

(3) It will use its best endeavors to take all necessary and procure appropriate or advantageous measures to perform its obligations under this Agreement and to make this Agreement effective in accordance with the laws and regulations of China and the terms of this Agreement.

7.3 Party A and Party B each warrants to the other Party that its relevant subsidiaries have agreed to execute this Agreement as Service Receiver and Service Provider respectively from the effective date of this Agreement.

7.4 Party A and Party B each warrants to the other Party that its relevant subsidiaries who provide Services have all the qualifications and licenses that are required by the State's supervision authorities, and that such qualifications and licenses are continuously effective within the term of this Agreement.

7.5 Party A and Party B each warrants to the other Party that its relevant subsidiaries who provide Services hire qualified, highly experienced, and professional employees, and that the number and skills of such employees meet the needs under this Agreement.

7.6 Party A and Party B each warrants to the other Party that employees of its relevant subsidiaries who provide Services are able to receive sufficient guidelines and instructions regarding such Services under this Agreement, have reasonable care and technology to meet the standard required by the other Party, and will not cause damage to the Service Receiver because of employees' behaviors.

7.7 Party A and Party B each warrants to the other Party that its relevant subsidiaries will receive Services provided by the other Party (and its subsidiaries), provide necessary conditions and assistance, and will not cause damage to the Service Receiver because of employees' behaviors.

7.8 It is agreed that both Parties will take further actions to ensure the realization of the principles and provisions in this Agreement. It is further agreed that both Parties will ensure that, Party B, being a subsidiary of Listed Company, shall comply with the Listing Rules of the Hong Kong Stock Exchange for connected transactions.

8. TERM

8.1 This Agreement shall come into effect from January 1, 2008 to December 31, 2010. If agreed by both Parties, this Agreement shall be renewed automatically for another 3 years on the same terms. There is no limit on the number of renewal.

8.2 Both Parties agrees that from the date on which this Agreement takes effect, the Information Communication Technology Agreement executed by both Parties on November 7, 2006 will be terminated and replaced by this Agreement.

9. FORCE MAJEURE

9.1 In the event of Force Majeure that causes both Parties or either Party to fail completely or partially in performing the obligations under this Agreement, that said Party is not liable for breach of agreement. However, in the event of such an incident, the affected Party shall inform the other Party by written notice within fifteen (15) days after the said incident and provide relevant proof and evidence to the other Party. At the same time, the affected Party shall use its best endeavors to minimize the damage caused by the Force Majeure event. The affected Party or both Parties shall resume its obligations under this Agreement within a reasonable time once the Force Majeure event has ended.

9.2 Force Majeure in this Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. CONFIDENTIALITY

10.1 Unless with written approval by the other Party, neither Party can announce nor supply or reveal to any third Party any information regarding this Agreement or the business information of the other Party, with the exception of requests by the legal or governmental departments or any other relevant securities regulatory authorities or for the purpose of the Listing Company seeking listing or retaining listing.

11. TRANSFER OF RIGHTS AND OBLIGATIONS

11.1 Unless otherwise specified by Article 4.4 of this Agreement, without the written approval of the other Party, neither Party may transfer any single right and obligation as agreed upon under this Agreement.

12. NON-WAIVER

12.1 Unless otherwise specified by law, the failure or delay of exercising the right, power or privilege as endowed by this Agreement on the part of any Party cannot be deemed as the waiver of such rights, power or privileges. Besides, the partial exercise of such rights, power or privileges should not hinder the exercise of such rights, power or privileges of this Party in the future.

13. NOTICE

13.1 All notices required to be delivered pursuant to this Agreement shall be in writing, and delivered to the address as stated at the beginning part of this Agreement, or to addresses or facsimile numbers designated by one Party to the other Parties in writing from time to time.

13.2 Any notice shall be delivered either by hand, registered mail, or facsimile. Any notice shall be deemed to have been delivered at the time of actual receipt if delivered by hand; three days after the date of return receipt if delivered by registered mail; and at the time of transmission if delivered by facsimile.

14. GOVERNING LAW AND DISPUTE RESOLUTION

14.1 This Agreement shall be governed, interpreted, and executed in accordance with the laws of China.

14.2 In case of disputes as to the power, interpretation or implementation of this Agreement, both Parties shall seek to settle the matters of dispute by friendly negotiation. If the matters of dispute cannot be settled by negotiation within thirty (30) days from the day the matters of dispute arise, either Party has the right to resort to litigation at the people's court which has jurisdiction over such Party.

15. EFFECTIVENESS AND MISCELLANEOUS

15.1 This Agreement will come into effect upon signed and sealed by the legal representatives or authorized representatives of both Parties.

15.2 This Agreement may be made in several copies and executed by each Party separately, which together form an effective Agreement. If this Agreement is signed on copies, the date on which each Party successfully exchange the signed copy by facsimile is considered the signing date.

15.3 Under condition where the Listed Company meets the supervision requirements on related party transaction provided by Listing Rules, this Agreement may be amended or supplemented as agreed by both Parties. All such amendments or supplements shall come into effect only when executed or sealed by the legal representative or authorized representative of both Parties.

15.4 This Agreement is severable, that is, if any provision of this Agreement is held to be void, illegal, or unenforceable at any time, the effectiveness and performance of other provisions of this Agreement shall not be affected.

15.5 This Agreement is made into four (4) duplicate originals. Each party holds two (2) copies, and each copy shall have the same legal binding effect.

IN WITNESS WHEREOF, the legal representatives or authorized representatives of the both Parties hereto have executed this Agreement as of the date and venue first written above.

Signature Page

PARTY A: CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (SEAL)

By: /s/ Zuo Xunsheng
Legal representative or Authorized representative

PARTY B: CHINA NETCOM GROUP SYSTEM INTEGRATION LIMITED CORPORATION (SEAL)

By: /s/ Sun Shizhen
Legal representative or Authorized representative

Framework Agreement for Interconnection Settlement

Between

China Network Communications Group Corporation

&

China Unicom Corporation Limited

This Framework Agreement for Interconnection Settlement (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)

Registered Address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)

Registered Address: Level 12, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing
Legal Representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and

the capacity of full service operation. In the above notice, China Telecom is encouraged to buy China Unicom's CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom's red-chip counterpart via an agreement (the "Merger Transaction"). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) In its operations of telecommunications services, Party B needs to make the interconnection settlement to Netcom Group.

On the basis of equity and fairness and following friendly consultation, Party A (including Party A's branches, subsidiaries and other units under its control, but excluding the Netcom Red-chip Company and its affiliates, subsidiaries and other units under its control, the same below) and Party B (including Party B's branches, subsidiaries and other units under its control, the same below) enters into this Framework Agreement on interconnection settlement and other related matters as follows:

1. Basic principles

- 1.1 The services and/or facilities from one party to the other pursuant to this Framework Agreement are regarded as paid business transactions between the two parties. Based on the principle of equity and fairness, the party is entitled to charge the other party a reasonable amount of service fees for the services and/or facilities. The other party shall honour the obligation of payment.
- 1.2 The services and/or facilities from one party to the other pursuant to this Framework Agreement shall be no less favourable than those granted to any other third-party as and when the same or similar services and/or facilities are provided.
- 1.3 If one party requests the other to provide more services and/or facilities under this Framework Agreement, the other party shall make its best efforts to provide extra services and/or facilities as required. The conditions governing the services and/or facilities shall be no less favourable than those granted to any other third-party as and when the same or similar services and/or facilities are provided.
- 1.4 The provision of services and/or facilities under this Framework Agreement shall comply with the purpose of use provided in this Framework Agreement as well as relevant state standards.
- 1.5 In the event of losses incurred to either party as a result of breach of this Framework Agreement, the party in breach shall claim in time full responsibilities with regard to the breach (including but not limited to direct or indirect losses inflicted upon the other party). However, if the loss in question is caused by force majeure, no party shall be held responsibilities.
- 1.6 During implementation of the obligations prescribed in this Framework Agreement by either party, the other party shall undertake to provide assistances where necessary.
- 1.7 It is confirmed that the two parties are obligated to take further actions and measures where necessary to ensure the realization of the purposes and provisions prescribed in this Framework Agreement. Moreover, the provisions relating to connected transactions in the listing rules of the Hong Kong Stock Exchange will be observed when Party B emerges as a subsidiary of the Unicom Red-chip Company.

2. Interconnection and settlement types

- 2.1 The two parties agree to realize interconnection of various telecommunications networks.
- 2.2 The two parties agree to make settlement of domestic and international voice services in accordance with the provisions of the Agreement.

3. Rules of the Internet technology, technical specifications, Internet access charges sharing and project construction

- 3.1 The above-mentioned interconnection of the two parties shall comply with the Internet technical rules and technical specifications of the state telecommunications administration.
- 3.2 The two parties should refer to the relevant regulations of the state telecommunications administrator and determine the settlement methods of the interconnection cost and project construction through negotiation.

4. Obligations of the two parties

- 4.1 The two parties shall ensure the quality of inter-network communications is not poorer than that of their respective intra-network communications.
- 4.2 Where technically feasible, any party to this Framework Agreement that provides a variety of telecommunications services to its intra-network subscribers, shall upon the other party's request, provide the same services to the other party's subscribers unconditionally and timely and ensure quality of service.
- 4.3 Party A has the obligation to provide the auditor of Unicom Red-chip Company with accounting records of Party A and its connected persons on the transaction details.

5. Network management and maintenance

- 5.1 In case network expansion or transformation by any party to this Framework Agreement is likely to affect the user communications on the other party, it should notify the other party six (6) months in advance.
- 5.2 Except in case of the force majeure, any party to this Framework Agreement makes adjustment in routers, relay circuit, signal mode, Bureau data and software version in its network, which might affect the user communications on the other party, it should notify the other party thirty (30) days in advance.
- 5.3 Any party to this Framework Agreement, upon request, should timely cooperate with the other party on its adjustment in routers, relay circuit, signal mode, Bureau data and software version to ensure quality of the inter-network communications.
- 5.4 The two parties agree to maintain their respective networks in accordance with the relevant regulations promulgated by the national telecommunications administrator to ensure the normal operation of the entire network.
- 5.5 When the inter-network communications is disrupted or ineffective, the two parties shall take immediate and effective measures to restore communications.

6. Settlement principles and methods

6.1 Local network call charges settlement

- (1) Within the local networks, when Party B mobile telephone customer calls a Party A fixed-line customer, Party B makes a settlement payment to Party A at the rate of RMB0.06 per minute.
- (2) Within the local networks, when Party A fixed-line customer calls a Party B mobile telephone customer, the settlement is suspended.
- (3) Within the local networks, when customers of the two parties make inter-network calls to various call centres, the telephone operator in the location of the calling party collects local network call charges and makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute.

- (4) When the phone customers of one party choose the dial-up access to the Internet service of the other party, the operator in the location of the calling party collects the communications charges for the Internet service from the customers. The Internet service provider collects the network use charges from the customers. There is no settlement between Party A and Party B.

6.2 Charge settlement of domestic long distance calls, international calls and calls to Hong Kong, Macao and Taiwan, and IP call.

- (1) While Party B's mobile subscribers choose to use Party A's domestic long distance call services or the international telephone services for calling, Party B shall collect the local calling charges (additional roaming charges for roaming customers) from the callers and Party A shall collect domestic or international call charges from the callers. In the local network at the caller's location, Party A shall make a settlement payment to Party B at the rate of RMB0.06 per minute.

When Party A's local fixed-line phone users choose to use Party B's domestic long-distance call or international call services for long-distance or international calling, the calling party is free from charge by Party A, and is charged by Party B for domestic and international calling services. In the local network of the calling party, Party B shall make a settlement payment to the calling party at the rate of RMB0.06 per minute.

- (2) The user of either party does not choose the domestic long-distance network to call the user of the other party or other call centres in other places: when the calling party in the location of the calling party sends the calling into the phone network of the other party via the connection points, the settlement payment rate will be RMB0.34 per minute if the call is made between 0:00 and 07:00 hours and RMB0.54 per minute if the call is made between 07:00 and 24:00 hours.
- (3) The user does not choose the international phone service for calling: when the calling party in the local network sends the calling into the phone network of the other party via the connection points, the calling party shall make a settlement to the international service provider at the rate of RMB B per minute. If the calling party uses the domestic long-distance circuit to send the calling to the network of the other party in the location of the international inbound and outbound bureau (not the location of the calling party), the calling party shall make a settlement to the international service provider at the rate of RMB C per minute. On holidays and during the hours of discount, the settlement is based on the preferential price (B and C: B is RMB0.06 per minute, which is the rate for the international service on the side of the international service providers approved by the former Ministry of Information Technology. And C is RMB0.54 per minute, which is the rate for the international service on the side of the international service providers approved by the former Ministry of Information Technology. The preferential price refers to the price during holidays and the hours of discount which is released to the public by the international service provider).

The control over the proportion of poor international calls shall be negotiated by the international service departments of the two parties. Before reaching any consensus, the settlement shall be made in accordance with the international service charge standards of the two parties.

The two parties agree to realize direct connection of the international inbound and outbound bureau in Beijing.

- (4) When phone users of either party choose the other party's IP phone network for calling, the telephone operator in the location of the calling party collects the local call charges from the calling party (local call charges for mobile users and additional roaming charges for roaming users). The IP service provider collects the IP phone charges. On the calling side, the two parties do not make a settlement.

- (5) For the long-distance calling from the long-distance phone network or the IP phone network of one party to the phone user or call centres of the other party, the long-distance service provider shall make a settlement to the other party at the rate of RMB0.06 per minute as it sends the call into the phone network of the other party in the location of the called party.
- (6) For the international calling from the international phone network or IP phone international gateway of one party to the phone user of the other party, the long-distance service provider shall make a settlement to the other party at the rate of RMB0.06 per minute as it sends the call into the phone network of the called party in the location of the called party. When the international service provider sends the call to the phone network of the called party via the connection point out of the location of the called party, it shall make a settlement to the called party at the rate of RMB0.54 per minute in the location of the connection point.

For the international calling from Party A's international phone network or the IP international gateway to Party B's international roaming visiting users, Party A sends the calling to Party B's phone network via the connection point in the location of Party A's international inbound and outbound bureau, where Party A makes a settlement to Party B at the rate of RMB 0.06 per minute.

- (7) For the transmission of calling number that does not comply with the Agreement, the calling party is considered non-local domestic user by the two parties in the inter-network settlement. In case either party fails to send the real calling number due to the equipment or the technical problems, the transmission format of the calling number shall be determined by the headquarters of the two parties through negotiation.

6.3 Transfer settlement

- (1) When the phone user of either party calls the local customer of the third party or the call centres affiliated to the network of the third party and transferred via the network of the other party, the calling party shall make a settlement to the transferring party at the rate of RMB0.03 per minute. Whether the settlement between the calling party and the called party will be made by the transferring party is determined by the provincial agencies of the two parties or the third party at the provincial level through negotiation.
- (2) When the phone user of the third party calls the local customer of either party or the call centres affiliated to the network of either party and transferred via the network of the other party, the third party shall make a settlement to the transferring party at the rate of RMB0.03 per minute. Whether the settlement between the calling party and the called party will be made by the transferring party is determined by the provincial agencies of the two parties or the third party at the provincial level through negotiation.
- (3) When the phone user of either party chooses the domestic long-distance call, IP phone service or the phone card by the third party or vice versa, the calling party if transferred by the other party, the transferring party shall send the calling in the location of the calling party to the network of the service supplier, which shall make the settlement to the transferring party at the rate of RMB0.03 per minute. Whether the settlement between the calling party and the called party will be made by the transferring party is determined by the provincial agencies of the two parties or the third party at the provincial level through negotiation.
- (4) When the long-distance call between the user of either party and the user of the third party is transferred at the receiving side, the long-distance service supplier shall pay the transferring charges to the transferring party at the rate of RMB0.03 per minute plus the settlement charges of RMB0.06 per minute. The transferring party then makes the settlement to the called party at the rate of RMB0.06 per minute.
- (5) When the calling from the user of Party B to the user of the third party is transferred by Party A, if Party A uses the switch invested by Party B, Party A and Party B does not

make settlement of the transferring charges; if Party A uses its own switch, Party B shall make the settlement to Party A at the rate of RMB0.03 per minute.

6.4 Settlement of calling forwarding

When user A calls user B, who forwards the calling to user C, it is considered calling twice. The first calling is from user A to user B and the second calling is from user B to user C. If either calling is relayed through the inter-network connection point of Party A and Party B, the two parties shall make the settlement according to relevant provisions of this Agreement.

6.5 Settlement of international roaming of mobile users

(1) Settlement of international roaming and roaming in Hong Kong, Macao and Taiwan of Party B's mobile users:

When user A calls Party B's mobile user B, who is roaming in foreign countries or Hong Kong, Macao and Taiwan, the calling is considered twice. The first calling is from user A to user B and the second calling is user B's calling to the roaming place. If either calling is relayed through the inter-network connection point of Party A and Party B, the two parties shall make the settlement according to relevant provisions of this Agreement.

(2) The calling by the roaming user from foreign countries or Hong Kong, Macao and Taiwan is considered the calling by Party B's local mobile user. Party A and Party B shall make the settlement according to relevant provisions of this Agreement.

6.6 Other provisions on inter-network settlement

(1) Access to the network half-way is considered access to the network at the starting point and settlement shall be made according to article 6.2.

(2) When Party B's mobile user makes calling or is called, settlement shall be made according to the location of the calling party or the called party, except the mobile user originates a long distance calling through the network of his own selection.

(3) When one party uses the same access code to open local, long-distance and IP services, and the user of the other party uses the service access code for calling, the settlement shall be made according to the standard for long-distance service. The service supplier shall make the settlement to the calling party at the rate of RMB0.06 per minute.

6.7 Settlement time unit, cycle and location

(1) The settlement of domestic long-distance call, international call and IP call is made by 6 seconds. Less than 6 seconds is counted as 6 seconds. The call length of all phone bills in the settlement cycle is totalled, if it's less than minute, it shall be counted as minute. The call length which is less than three seconds (including three seconds) shall be taken into account.

(2) When user of either party chooses the smart phone card of the other party for calling, the settlement shall be made by 6 seconds. Less than 6 seconds is considered 6 seconds. The call length of all phone bills in the settlement cycle is totalled, if it's less than minute, it shall be counted as minute.

(3) Settlement billing cycle (subject to the end of the call) is 0:00:00 (included) of the first day of each month to 24:00:00 (excluded) of the last day of the same month.

(4) The settlement location is in principle at the provincial level. Where conditions do not permit, the provincial-level agencies may make the local network settlement. The details shall be determined by the provincial agencies of the two parties.

7. Representations, assurances and commitments

Each party of this Framework Agreement makes the following representations, assurances and commitments to the other party:

- (1) Each party is an independent legal person incorporated for effective duration in accordance with Chinese laws, with full power and authority (including but not limited to the approval, permission or consent given by competent government departments) to sign and implement this Framework Agreement;
- (2) No provision contained in this Framework Agreement is in violation of either party's association documents or Chinese laws and regulations;
- (3) Each party will do its utmost to take or cause other people to take any necessary, appropriate or desirable action in line with Chinese laws, regulations as well as this Framework Agreement, with a view to enabling the effective implementation of those matters prescribed in this Framework Agreement.

8. Effectiveness

8.1 This Framework Agreement is valid for 3 years and enters into force on the next day after all conditions of this Framework Agreement are fully met:

- (1) This Framework Agreement is ratified by the general meeting of shareholders of the China United Communications Co. Ltd. (Unicom A share Company).
- (2) This Framework Agreement is approved at the general meeting of shareholders of Unicom Red-chip Company.
- (3) The Merger Transaction is executed and completed.

8.2 Unless Party B sends a written notice to Party A not to renew the Agreement 60 days in advance, when this Framework Agreement expires the duration or the extended duration, the two parties will extend the Agreement for an agreed duration with the written consent in compliance with relevant laws, regulations and other rules.

9. Force majeure

9.1 If a party is unable to implement or fully implement the obligations prescribed in this Framework Agreement as a result of force majeure, then it will not undertake any liability for breach of the agreement, in which case it shall, within fifteen (15) days following the occurrence of force majeure, inform the case to the other party in writing and provide proof therewith, and at the same time make every effort to minimise the losses incurred by force majeure. Within a reasonable period of time in the wake of force majeure, the party falling victim to force majeure shall undertake to continue implementation of this Framework Agreement.

9.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. Confidentiality

Without the written permission of the other party, neither party shall make any announcement in regard to, or provide or disclose to a third party any data or information in relation to the businesses of the other party or items under this Framework Agreement, unless otherwise required by legal or government departments or securities regulatory bodies, or for the purpose of maintaining the listing status of the Unicom Red-chip Company.

11. Transfer

Without the written consent of the other party, neither party shall proceed to transfer any right and obligation prescribed in this Framework Agreement.

12. Non-waiver

Unless otherwise provided by laws, non-exercise or delayed exercise of the rights, powers or privileges prescribed in this Framework Agreement by either party shall not be regarded as a waiver of such rights, powers or privileges. Moreover, the exercise in part of such rights, powers or privilege shall not keep the party from exercising such rights, powers or privileges in the future.

13. Notification

Any notification relating to this Framework Agreement shall be made in writing by one party to the other party via personal delivery, fax or mail. A notification shall be regarded as "issued" upon delivery by hand, or the "sent" indication is displayed on the sender's fax machine, or on the third working day (subject to extension in case of statutory holidays) after sending of the mail. Any notification upon issuance shall be regarded as entering into force.

14. Applicable laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

15. Dispute settlement

In the event of a dispute between the two parties regarding the effectiveness, interpretation or execution of this Framework Agreement, friendly consultation shall be sought in the first place. If a case can not be settled through negotiation within thirty (30) days after the dispute arises, either party is entitled to file a lawsuit with the people's court of the corresponding jurisdiction.

16. Miscellaneous

- (1) On condition that the Unicom Red-chip Company complies with or meets the regulatory requirements on connected transactions, the two parties can proceed to amend or supplement this Framework Agreement based upon consensus.
- (2) Upon signing of this Framework Agreement, in case of conflict with any agreement reached prior to this Framework Agreement on any matter relating to the provisions established in this Framework Agreement, the contents of this Framework Agreement shall prevail.
- (3) This Framework Agreement is divisible, i.e., if any provision of this Framework Agreement is identified as illegal or unenforceable at any time, the validity and execution of other provisions of this Framework Agreement shall not be affected.
- (4) The original Framework Agreement is produced in four (4) copies, with each party holding two (2) copies and all the original copies being equally authentic.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for Signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Framework Agreement for Engineering and Information Technology Services

Between

China Network Communications Group Corporation

&

China Unicom Corporation Limited

This Framework Agreement for Engineering and Information Technology Services (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)

Registered Address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing

Legal Representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)

Registered Address: Level 12, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing

Legal Representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned duly enterprise incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and

the capacity of full service operation. In the above notice, China Telecom is encouraged to buy China Unicom's CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom's red-chip counterpart via an agreement (the "Merger Transaction"). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) In operation of related telecommunications services, Party B needs China Netcom Group to provide corresponding engineering and IT services.

On the basis of equity and fairness and following friendly consultation, the following framework agreement concerning the provision of engineering and IT services was entered into between Party A (including the subsidiaries and affiliates and other entities under the control of Party A, but excluding subsidiaries and affiliates and other entities under the control of Unicom Red-chip Company, the same below) and Party B (including the subsidiaries and affiliates and other entities under the control of Party B, the same below):

1. Basic principles

- 1.1 In accordance with the stipulations of this Framework Agreement, Party A is entitled to impose reasonable service charges over the engineering and IT services provided to Party B under this Framework Agreement, and Party B shall fulfil its responsibility in making the related payment.
- 1.2 The terms of the engineering and IT services provided by Party A under this agreement, shall be no worse than the terms offered by Party A in identical or similar services provided to any other third party.
- 1.3 If, due to reasons other than its own fault, Party A can not provide or fully provide the engineering and IT services under this Framework Agreement, Party A shall timely notify Party B in writing, and try its best to assist Party B in obtaining identical or similar services from other channels.
- 1.4 When Party A provides the engineering and IT services under this Framework Agreement to Party B, it must be restricted to the usage agreed by both parties and complies with the appropriate national rules.
- 1.5 Any Party under this Framework Agreement, which causes damage to the other Party by a breach of this Framework Agreement, shall compensate the other Party timely and in full.
- 1.6 Any Party under this Framework Agreement, in fulfilling its obligations thereof, shall provide justifiable and necessary assistance to the other Party.

2. The basic contents of engineering and IT services

- 2.1 The engineering and IT services under this Framework Agreement provided by Party A to Party B mainly includes:

- (1) Engineering design, which includes:

Planning and design, engineering survey, communications circuit engineering (including channel engineering, optical and cable engineering, pole line engineering, etc.), communications equipment engineering (including telephone switching engineering, transmission engineering, data and multimedia engineering, communications power and air conditioner engineering, microwave communications engineering, technical support system engineering), enterprise communications engineering;

(2) Engineering implementation, which includes:

Communications equipment, communication lines, communication power (including air conditioner for communications purposes), communication pipes, and technical services support system;

(3) Engineering supervision.

2.2 The IT services provided by Party A to Party B under this Framework Agreement includes: office automation, software testing, network upgrade, new business R&D and support system development, etc.

3. Pricing principles

3.1 Except in cases as provided in provision 3.2 of this article, the pricing of services and/or charging rate under this Framework Agreement, shall be determined with reference to the relevant market rates. The “market rate” mentioned in this provision refers to the rate made by the operator itself and finally fixed in the process of market competition. The market rate is determined in the following order: (1) in and around the areas where the services are provided, and while under normal conditions of trading, the rate charged by an independent third party in providing such services; or (2) the rate charged by an independent third party to the provision of such services under normal trading conditions in the PRC.

3.2 Both parties have agreed unanimously that the receiving party shall determine the service providing party, which will provide the engineering design and technical services, by way of bidding. The service providing party’s qualification and terms for service provision shall not be inferior to that of an independent third party, and this party shall attend the bidding process in equal status as the independent third party.

3.3 The specific amount of service charge under this Framework Agreement, shall be calculated in accordance with related accounting principles of the PRC (if applicable), that are applicable from time to time.

3.4 Both parties shall conduct a review on the pricing standard of next fiscal year for each service and facility which are provided under this Framework Agreement before December 31 of each year (if necessary).

4. Payment of service charge

4.1 Party B shall, in accordance with pricing and charging standards set forth in this Framework Agreement, the supplement agreement to this Framework Agreement (if there is any) and the concrete implementation documents, pay Party A or its trustee in a timely manner for the services provided.

4.2 If Party B fails to pay in time the corresponding service charge stipulated in this Framework Agreement, the supplement agreement to this Framework Agreement (if there is any) and the concrete implementation documents, it shall pay Party A the late fee which is 0.05% of the unpaid amount due for each (1) day (refers to calendar day, and similarly hereinafter); if it is late for sixty (60) days, Party A may notify Party B in writing the termination of corresponding services; if Party B still fails to pay the corresponding service fee after receiving the written notification for thirty (30) days, Party A could declare the termination of such services. However, the suspension or termination of these services shall not affect the rights and obligations of both parties already in effect under this Framework Agreement.

5. Rights and obligations of both parties

5.1 Rights and obligations of Party B

5.1.1 Rights of Party B

- (1) Party B is entitled to obtain services provided by Party A under this Framework Agreement;
- (2) Concerning the connected transactions under this Framework Agreement, the auditors of Unicom Red-chip Company are entitled to audit the accounting records of Party A and the related parties.

5.1.2 Obligations of Party B

- (1) Guarantee and/or promote its subsidiaries or affiliates or other entities under its control to sign the concrete implementation documents with Party A, in accordance with this Framework Agreement or supplement agreement to this Framework Agreement (if there is any) ;
- (2) Coordinate issues in connection with the concrete implementation documents;
- (3) Pay related service fee in accordance with this Framework Agreement and the concrete implementation documents;
- (4) Guarantee the compensation for any damage caused to Party A or the targeting Party in the concrete implementation documents due to the violation of a provision under this Framework Agreement or that under the concrete implementation documents.

5.2 Rights and obligations of Party A

5.2.1 Rights of Party A

- (1) Party A is entitled by law to obtain the service fee under this Framework Agreement;
- (2) Under the prerequisite that services under this Framework Agreement are provided to Party B, it has the option to provide similar services to a third party.

5.2.2 Obligations of Party A

- (1) Guarantee and/or promote its subsidiaries or affiliates or other entities under its control to sign the concrete implementation documents with Party B, in accordance with this Framework Agreement or supplement agreement to this Framework Agreement (if there is any);
- (2) Provide high quality service and supervise its subsidiaries or affiliates or other entities under its control to provide high quality services in accordance with the rules of this Framework Agreement;
- (3) Coordinate issues in connection with the concrete implementation documents;
- (4) Guarantee the compensation for any damage caused to Party B or the targeting Party in the concrete implementation documents due to the violation of a provision under this Framework Agreement or that under the concrete implementation documents.

5.3 Both parties confirm hereby, that they are obliged to take further necessary actions and measures, to guarantee the achievement of the its purpose and the successful implementation of this Framework Agreement, and ensure those rules of Hong Kong Stock Exchange concerning connected transactions are followed in the event that Party B is a subsidiary of Unicom Red-chip Company.

6. Priorities

- 6.1 Unless otherwise provided in this Framework Agreement, and if the terms and conditions proposed by an independent third party to Party B are no better than those of offered by Party A for the same services, Party B shall give preference to Party A.
- 6.2 Party A undertakes to Party B that the terms provided by Party A to a third party on same or similar services under this Framework Agreement shall not be better than those conditions provided by Party A to Party B.
- 6.3 Party A is entitled to provide related services to a third party under the condition that the services provided by Party A to Party B under this Framework Agreement are not affected.

7. Representations, warranties and commitments

Each party of this Framework Agreement makes the following representations, assurances and commitments to the other party:

- 7.1 Each party is an independent legal person incorporated for effective duration in accordance with Chinese laws, with full power and authority (including but not limited to the approval, permission or consent given by competent government departments) to sign and implement this Framework Agreement;
- 7.2 No provision contained in this Framework Agreement is in violation of either party's association documents or Chinese laws and regulations;
- 7.3 Each party will do its utmost to take or cause other people to take any necessary, appropriate or desirable action in line with Chinese laws, regulations as well as this Framework Agreement, with a view to enabling the effective implementation of those matters prescribed in this Framework Agreement.

8. Effective date and term of this Framework Agreement

- 8.1 This Framework Agreement shall come into effect since the next day when all of the following conditions are met, and will be valid for 3 years;
- (1) The general shareholder meeting of China United Telecommunications Corporation Limited ("China Unicom A Share Corporation") has approved this Framework Agreement;
 - (2) The general shareholder meeting of Unicom Red-chip Company has approved this Framework Agreement;
 - (3) The Merger Transaction is executed and completed.
- 8.2 Unless Party B notifies Party A in writing 60 days in advance, that it does not want to continue the contract, this Framework Agreement could be extended to a term agreed by both parties in writing in accordance with appropriate laws, regulations or other supervision rules, when this Framework Agreement or its extension expires.

9. Force majeure

- 9.1 If a party is unable to implement or fully implement the obligations prescribed in this Framework Agreement as a result of force majeure, then it will not undertake any liability for

breach of the agreement, in which case the it shall, within fifteen (15) days following the occurrence of force majeure, inform the case to the other party in writing and provide proof therewith, and at the same time make every effort to minimize the losses incurred by force majeure. Within a reasonable period of time in the wake of force majeure, the party falling victim to force majeure shall undertake to continue implementation of this Framework Agreement.

9.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. Confidentiality

Without the written permission of the other party, neither party shall make any announcement in regard to, or provide or disclose to a third party any data or information in relation to the businesses of the other party or items under this Framework Agreement, unless otherwise required by legal or government departments or securities regulatory bodies, or for the purpose of maintaining the listing status of the Unicom Red-chip Company.

11. Transfer of the rights and obligations

Without the written consent of the other party, neither party shall proceed to transfer any right and obligation prescribed in this Framework Agreement.

12. Non-waiver

Unless otherwise provided by laws, non-exercise or delayed exercise of the rights, powers or privileges prescribed in this Framework Agreement by either party shall not be regarded as a waiver of such rights, powers or privileges. Moreover, the exercise in part of such rights, powers or privilege shall not keep the party from exercising such rights, powers or privileges in the future.

13. Notification

Notices concerning this Framework Agreement shall be in written form and may be delivered personally from one party to the other or sent by facsimile or mail. Notices given by personal delivery shall be deemed effectively given on the date of personal delivery; notices sent by facsimile transmission shall be deemed effectively given on the date of transmission as indicated on the fax machine of the sender; notices sent by mail shall be deemed effectively given on the third (3rd) day (not including statutory holidays) after they were sent. The notice will become effective once it is delivered.

14. Applicable laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

15. Dispute settlement

In the event of a dispute between the two parties regarding the effectiveness, interpretation or execution of this Framework Agreement, friendly consultation shall be sought in the first place. If a case can not be settled through negotiation within thirty (30) days after the dispute arises, either party is entitled to file a lawsuit with the people's court of the corresponding jurisdiction.

16. Miscellaneous

16.1 On condition that the Unicom Red-chip Company complies with or meets the regulatory requirements on connected transactions, the two parties can proceed to amend or supplement this Framework Agreement based upon consensus.

- 16.2 Upon signing of this Framework Agreement, in case of conflict with any agreement reached prior to this Framework Agreement on any matter relating to the provisions established in this Framework Agreement, the contents of this Framework Agreement shall prevail.
- 16.3 This Framework Agreement is divisible, i.e., if any provision of this Framework Agreement is identified as illegal, invalid or unenforceable at any time, the validity and execution of other provisions of this Framework Agreement shall not be affected.
- 16.4 This Framework Agreement is produced in four (4) copies, with each party holding two (2) copies and all the original copies being equally authentic.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for Signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Framework Agreement for Property Leasing Services

Between

**China Network Communications Group Corporation
&
China Unicom Corporation Limited**

This Framework Agreement for Property Leasing Services (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)
Registered Address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)
Registered Address: Level 12, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing
Legal Representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full service operation. In the above notice, China Telecom is encouraged to buy China Unicom’s CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom’s red-chip counterpart via an agreement (the

“Merger Transaction”). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) Party B needs to establish building rental arrangement with Netcom Group in the service operation.

According to the particular context, “the Lessee” and “the Lessor” refer to Party A (including Party A’s branches, subsidiaries and other units under its control, but excluding Netcom Red-chip Company and its affiliates, subsidiaries and other units under its control, the same below) or Party B (including Party B’s branches, subsidiaries and other units under its control) or Party A and Party B.

According to the Contract Law of the People’s Republic of China and other laws and regulations, in order to define the rights and obligations of the two parties, the two parties sign this Framework Agreement as below through friendly consultation:

1. Lease Scope and Purpose

- 1.1 For the need of production and operation, the two parties agreed to lease the buildings owned by its branch companies, subsidiary companies, affiliated companies or enterprises or units under its control (“subordinate companies”) to each other. The two parties confirm that their subordinate companies have agreed to commission the two parties to exert the building lease rights under this Framework Agreement.

Party A agreed to lease the buildings owned by itself (“Buildings of Party A”) under items of this Framework Agreement to Party B; Party B agreed to rent buildings owned by Party A and pay the consideration according to this Framework Agreement. At the same time, Party B agreed to lease the buildings owned by itself (“Buildings of Party B”) under items of this Framework Agreement to Party A; Party A agreed to rent buildings owned by Party B and pay the consideration according to this Framework Agreement.

- 1.2 The two parties agreed that the buildings rented by either party are used for legal service operation in the licensed scope of the buildings. With the written consent by either party of this Framework Agreement, the other party could sublease the buildings to the third party, but the sublessor still assumes the rights and obligations under this Framework Agreement for the buildings.

2. Leasehold

- 2.1 The leasehold of the buildings under this Framework Agreement is determined by the two parties according to the specific conditions of these rental buildings, but it is subjected to Article 2.2 of this Framework Agreement.

- 2.2 The Lessor may terminate the lease of building under this Framework Agreement immediately if:

- (1) without the consent of the Lessor, the Lessee subleases or lends buildings owed by the Lessor to others (except for subleasing or lending to affiliated or associated companies of the Lessee);
- (2) The Lessee violates regulations of the rental purpose agreed by the two parties, or uses buildings owned by the Lessor for any unlawful purpose and damages public interests.

- 2.3 If the Lessee does not execute renewal rights according to this Framework Agreement but can not return the buildings to the Lessor owing to business operations, the Lessor shall extend the leasehold as appropriate and is entitled to charge the Lessee rentals for the extended leasehold.

3. Rental and Method of Payment

- 3.1 The two parties have agreed that the specific rental of the buildings rented by each other will be determined on the basis of the market price or depreciation and tax and refer to the rental

standard prescribed by local commodity price departments, and take into account the specific needs of the two parties. The rental determined could not be higher than the market price.

- 3.2 The two parties have agreed that the specific executing documents for the rental of individual building can be signed to set forth terms and conditions applicable to the individual building, but the executing documents shall conform to the principle, compendium and terms and conditions stipulated in this Framework Agreement.
- 3.3 The rents stated in the term shall be re-examined once every year. The two parties shall consult to determine whether to adjust and the specific rents after adjustment, but the rents after adjustment shall not be higher than the market price.
- 3.4 The rents shall be charged quarterly. The settlement day is the last day of each quarter. In case of Saturday, Sunday or public holidays, the settlement day shall be extended to the first working day after holidays.
- 3.5 All the overhead expenses and other expenditure charged by the State or local government for the rental buildings caused by the rental of buildings owned by Party A or Party B shall be born by the Lessor, except as otherwise set forth in this Framework Agreement.

4. Building Repair During the Leasehold

The Lessor shall be responsible for repairing the buildings it rents out and bear the resulting costs. The Lessee shall carry out necessary maintenance of the rented buildings including the reconstruction of main structure after getting the Lessor's consent and reaching written framework agreement, except as set forth in this Framework Agreement. But the Lessor shall not refuse or delay the main structure reconstruction required by the Lessee except for legitimate reasons. For the modification and addition not touching upon the main structure, the Lessee may carry out the maintenance at its own expense without giving notification to and getting consent of the Lessor. If the Lessee or Lessor conducts maintenance, modification or addition during the leasehold, the additions or value added to the buildings shall be granted to the Lessor.

5. The Alteration of the Lessor

- 5.1 If the Lessor transfers buildings owned by itself to the third party, this Framework Agreement shall be valid to the new building owner.
- 5.2 If the Lessor sells its building ownership, it is required to notify the Lessee three months in advance. The Lessee has, under equal conditions, the right of first refusal to purchase.

6. Representations, Assurances and Commitments

- 6.1 Each party makes the following statement and assurance to the other party that each party is the enterprise or organization incorporated for effective duration in accordance with PRC laws, with full power and authority (including laws, rights and warrant inside the company or in other fields):
 - (1) holds, leases, rents and operates its property;
 - (2) signs and implements this Framework Agreement.
- 6.2 The Lessor makes the statement and promise to the Lessee as below:
 - (1) The Lessor is the only legitimate possessor of the ownership of its rental buildings and entitled to lease the buildings to the Lessee for payment by itself under regulations set forth in this Framework Agreement;
 - (2) The rented buildings are with complete structure and in good condition when delivered to the Lessee. The purpose of the Lessee stated in this Framework Agreement could be fulfilled;

- (3) The Lessor promises that if any inaccuracy lies in the guarantee, the Lessee has rights to terminate this Framework Agreement at any moment. At the same time; the Lessor agrees to hold the liability for all the economic losses of the Lessee.
- 6.3 The Lessee makes the statement and promise to the Lessee as below:
- (1) The Lessee shall pay rents to the Lessor pursuant to Article 3 in this Framework Agreement. If the Lessee fails to pay the rents by the due date, then the Lessee shall pay the delaying payment at the rate of 0.05% on a daily basis (calendar day, the same hereinafter).
- (2) During the leasehold, the Lessee shall abide by corresponding laws and regulations of the PRC. In case of problems such as security, fire prevention, environment protection etc., the Lessee shall hold the liability by itself.
- 6.4 Party B promises to provide the accounting records of Party B and its connected persons about connected transaction to auditors of Unicom Red Chip Company.
- 6.5 The two parties make a statement and promise to each other that any terms and conditions in this Framework Agreement does not violate its constitution or laws and regulations of the PRC.
- 6.6 The two parties affirm that each party is obligated to take further necessary actions or measures in order to achieve the tenet of this Framework Agreement and its content and provisions of connected transactions in the listing rules stipulated by the Stock Exchange of Hong Kong in the case of Party B as the subsidiary of the listed company.

7. Effectiveness

This Framework Agreement will take effect on the next day following the final implementation of the Merger Transaction.

8. Force Majeure

- 8.1 If a party is unable to implement or fully implement the obligations prescribed in this Framework Agreement as a result of force majeure, then it will not undertake any liability for breach of the agreement, in which case the it shall, within fifteen (15) days following the occurrence of force majeure, inform the case to the other party in writing and provide proof therewith, and at the same time make every effort to minimise the losses incurred by force majeure. Within a reasonable period of time in the wake of force majeure, the party falling victim to force majeure shall undertake to continue implementation of this Framework Agreement.
- 8.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

9. Confidentiality

Without the written permission of the other party, neither party shall make any announcement in regard to, or provide or disclose to a third party any data or information in relation to the businesses of the other party or items under this Framework Agreement, unless otherwise required by legal or government departments or securities regulatory bodies, or for the purpose of maintaining the listing status of the Unicom Red-chip Company.

10. Transfer

Without the written consent of the other party, neither party shall proceed to transfer any right and obligation prescribed in this Framework Agreement.

11. Non-Waiver

Unless otherwise provided by laws, non-exercise or delayed exercise of the rights, powers or privileges prescribed in this Framework Agreement by either party shall not be regarded as a waiver of such rights, powers or privileges. Moreover, the exercise in part of such rights, powers or privilege shall not keep the party from exercising such rights, powers or privileges in the future.

12. Notification

Any notification relating to this Framework Agreement shall be made in writing by one party to the other party via personal delivery, fax or mail. A notification shall be regarded as "issued" upon delivery by hand, or the "sent" indication is displayed on the sender's fax machine, or on the third working day (subject to extension in case of statutory holidays) after sending of the mail. Any notification upon issuance shall be regarded as entering into force.

13. Liability for Breach of Contract

13.1 Failure in performing any of its obligations by either party shall be deemed as breach of this Framework Agreement. The party in breach shall rectify such default within five (5) days following the receipt of notice of setting forth the specifics of such default (except for the case agreed in Paragraph 1 of Article 6.3). If the default has not been cured after five (5) days, the party in breach shall hold the liability for all the direct and predictable losses arising from the default.

13.2 If the extension of use of rental buildings is caused by the Lessor as a result of negligence, the leasehold under this Framework Agreement shall be extended.

14. Applicable Laws and Disputes Settlement

14.1 This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

14.2 All the disputes arising from the execution of or related with this Framework Agreement shall be settled through friendly consultation between the two parties. In case of failure to settle such disputes through consultation, either party is entitled to file a lawsuit with the people's court of the corresponding jurisdiction.

15. Miscellaneous

15.1 On condition that the Unicom Red-chip Company complies with or meets the regulatory requirements on connected transactions, the two parties can proceed to amend or supplement this Framework Agreement based upon consensus.

15.2 Upon signing of this Framework Agreement, in case of conflict with any agreement reached prior to this Framework Agreement on any matter relating to the provisions established in this Framework Agreement, the contents of this Framework Agreement shall prevail.

15.3 This Framework Agreement is divisible, i.e., if any provision of this Framework Agreement is identified as illegal, invalid or unenforceable at any time, the validity and execution of other provisions of this Framework Agreement shall not be affected.

15.4 The original Framework Agreement is produced in four (4) copies, with each party holding two (2) copies and all the original copies being equally authentic.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for Signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Framework Agreement for Ancillary Telecommunications Services

between

China Network Communications Group Corporation

and

China Unicom Corporation Limited

This Framework Agreement for Ancillary Telecommunications Services (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)
Registered address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing
Legal representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)
Registered address: 12/F, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing
Legal representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full service operation. In the above notice, China Telecom is encouraged to buy China Unicom’s CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom’s red-chip counterpart via an agreement (the “Merger Transaction”). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock

Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) Netcom Group shall provide corresponding ancillary telecommunications services to Party B in operation of related telecommunications services.

On the basis of equity and fairness and following friendly consultation, Party A (including Party A's branches, subsidiaries and other units under its control, but excluding the Netcom Red-chip Company and its affiliates, subsidiaries and other units under its control, the same below) and Party B (including Party B's branches, subsidiaries and other units under its control, the same below) enters into the following Framework Agreement concerning the provision of ancillary telecommunications services:

1. Basic principles

- 1.1 In accordance with the stipulations of this Framework Agreement, Party A is entitled to impose reasonable service charges over the ancillary telecommunications services provided to Party B under this Framework Agreement, and Party B shall fulfil its obligations in making the related payment.
- 1.2 The terms of the ancillary telecommunications services provided by Party A under this Framework Agreement shall be no inferior to the terms of the same or similar services provided to any other third party.
- 1.3 If, due to reasons other than its own fault, Party A can not provide or fully provide the ancillary telecommunications services under this Framework Agreement, Party A shall notify Party B in writing in a timely manner, and try its best to assist Party B in obtaining the same or similar services from other channels.
- 1.4 The ancillary telecommunications services provided under this Framework Agreement by Party A to Party B shall comply with the usage agreed by both parties and the related national standards.
- 1.5 For the damages caused by any Party to the other under this Framework Agreement due to the breach of this agreement, the defaulting Party shall be responsible to make timely and full compensation to the other for the breach.
- 1.6 Any Party under this Framework Agreement, in fulfilling its obligations under this agreement, shall be provided with reasonable and necessary assistance by the other Party.

2. The basic contents of the ancillary telecommunications services

- 2.1 The ancillary telecommunications services under this Framework Agreement provided by Party A to Party B includes: various pre-sale, on-sale and after-sale telecommunications services such as assembling, dismantling, removing and repairing of telecommunications equipments in the customer end, sales agency services of some of the communications products, printing and invoice delivery services, collection of phone bills, production of phone cards, and development of customers, etc.; collection and feedback of the market and customer information; maintenance of the ancillary facilities (such as the air-conditioner and fire control equipments) in the communications equipment rooms, and maintenance of the telephone booths, etc.

3. Pricing principles

- 3.1 The pricing of the ancillary telecommunications services and/or charging rate under this Framework Agreement shall be determined with reference to the principles and order set forth in this article: follow the government-fixed price if there is any; follow the government-recommended price if there is any; follow the market price if there is no government-fixed price nor government-recommended price; if there is no government-fixed price, government-recommended price nor market price, the price shall be determined through consultation by both parties. However, the agreed price should be composed of the reasonable costs and the reasonable profits, among which the "reasonable costs" refers to the costs agreed by both parties after consultation.

The "government-fixed price" in this article refers to the price set up by the price administrations or other related departments according to the Price Law of the People's Republic of China, and the authority and scope of the pricing.

The “government-recommended price” in this article refers to the price set up by the operators according to the Price Law of the People’s Republic of China, and guided by the benchmark price and its floating rate provided by the price administrations or other related departments according to the pricing authority and scope.

The “market price” in this article refers to the price set up by the operators and formed through market competition. The market price is determined according to the following order: (1) the price charged by an independent third party in providing the service under normal trading conditions in the service provision areas or the neighborhoods; or (2) the price charged by an independent third party in providing the service under normal trading conditions in the PRC.

- 3.2 The specific amount of service charge under this Framework Agreement, shall be calculated in accordance with related accounting principles of the PRC (if applicable) which are applicable from time to time.
- 3.3 Both parties shall conduct a review on the pricing standard of next fiscal year for each service and facility which are provided under this Framework Agreement before December 31 of each year (if necessary).
- 3.4 It is estimated that both parties will formulate concrete implementation document from time to time on providing related service according to the needs; this concrete implementation document should record the specific service needed by Party B at that time, as well as the binding principles, guide lines, terms and conditions of this Framework Agreement.

4. Payment of service charge

- 4.1 Party B shall, in accordance with pricing and charging standards set forth in this Framework Agreement, the supplement agreement to this Framework Agreement (if there is any) and the concrete implementation documents, pay Party A or its trustee in a timely manner for the service provision.
- 4.2 If Party B fails to pay in time the corresponding service charge stipulated in this Framework Agreement, the supplement agreement to this Framework Agreement (if there is any) and the concrete implementation documents, it shall pay Party A the penalty fee which is 0.05% of the unpaid amount due for each (1) day (refers to calendar day, and similarly hereinafter), if it is late for sixty (60) days, Party A may notify Party B in writing the termination of corresponding services; if Party B still fails to pay the corresponding service fee after receiving the written notification for thirty (30) days, Party A could declare the termination of such services. However, the suspension or termination of these services, shall not affect the rights and obligations of both parties already in effect under this Framework Agreement.

5. Rights and obligations of both parties

5.1 Rights and obligations of Party B

5.1.1 Rights of Party B

- (1) Party B is entitled to obtain services provided by Party A under this Framework Agreement;
- (2) Concerning the connected transactions under this Framework Agreement, the auditors of Unicom Red-chip Company are entitled to audit the accounting records of Party A and the connected parties.

5.1.2 Obligations of Party B

- (1) Guarantee and/or promote its subsidiaries or affiliates or other entities under its control to sign the concrete implementation documents with Party A, in accordance with this Framework Agreement or supplement agreement to this Framework Agreement (if there is any);
- (2) Coordinate issues in connection with the concrete implementation documents;
- (3) Pay related service fees in accordance with this Framework Agreement and the concrete implementation documents;

- (4) Guarantee the compensation for any damage caused to Party A or the targeting Party in the concrete implementation documents due to the violation of a provision under this Framework Agreement or that under the concrete implementation documents.

5.2 Rights and obligations of Party A

5.2.1 Rights of Party A

- (1) Party A is entitled by law to obtain the service fees under this Framework Agreement;
- (2) Under the prerequisite that services under this Framework Agreement are provided to Party B, it has the option to provide similar services to a third party.

5.2.2 Obligations of Party A

- (1) Guarantee and/or promote its subsidiaries or affiliates or other entities under its control to sign the concrete implementation documents with Party B, in accordance with this Framework Agreement or supplement agreement to this Framework Agreement (if there is any);
- (2) Provide and supervise its subsidiaries or affiliates or other entities under its control to provide high quality service in accordance with the rules of this Framework Agreement;
- (3) Coordinate issues in connection with the concrete implementation documents;
- (4) Guarantee the compensation for any damage caused to Party B or the targeting Party in the concrete implementation documents due to the violation of a provision under this Framework Agreement or that under the concrete implementation documents.

5.3 Both parties confirm hereby, that they are obliged to take further necessary actions and measures, to guarantee the achievement of the purpose and successful implementation of this Framework Agreement, and ensure the rules of Hong Kong Stock Exchange concerning connected transactions are followed in the event that Party B is a subsidiary of the listed company.

6. Priorities

- 6.1 If the terms and conditions proposed by an independent third party to Party B are no better than those of offered by Party A for the same service, Party B shall give preference to Party A.
- 6.2 Party A undertakes to Party B that the conditions provided by Party A to a third party concerning the same or similar service in this Framework Agreement shall not be better to those conditions provided by Party A to Party B.
- 6.3 Party A is entitled to provide related service to a third party under the condition that the service provided by Party A to Party B according to this Framework Agreement shall not be affected.

7. Representations, Assurances and Commitments

Each party of this Framework Agreement makes the following statements, assurances and commitments to the other party:

- 7.1 Each party is an independent legal person incorporated for effective duration in accordance with Chinese laws, with full power and authority (including but not limited to the approval, permission or consent given by competent government departments) to sign and implement this Framework Agreement;
- 7.2 No provision contained in this Framework Agreement is in violation of either party's association documents or Chinese laws and regulations;

7.3 Each party will do its utmost to take or cause other people to take any necessary, appropriate or desirable action in line with Chinese laws, regulations as well as this Framework Agreement, with a view to enabling the effective implementation of those matters prescribed in this Framework Agreement.

8. Effectiveness

This Framework Agreement will take effect on the next day following the final implementation of the Merger Transaction.

9. Force majeure

9.1 If a party is unable to implement or fully implement the obligations prescribed in this Framework Agreement as a result of force majeure, then it will not undertake any liability for breach of the agreement, in which case the it shall, within fifteen (15) days following the occurrence of force majeure, inform the case to the other party in writing and provide proof therewith, and at the same time make every effort to minimise the losses incurred by force majeure. Within a reasonable period of time in the wake of force majeure, the party falling victim to force majeure shall undertake to continue implementation of this Framework Agreement.

9.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. Confidentiality

Without the written permission of the other party, neither party of this Framework Agreement shall make any announcement in regard to, or provide or disclose to a third party any data or information in relation to the businesses of the other party or items under this Framework Agreement, unless otherwise required by legal or government departments or securities regulatory bodies, or for the purpose of maintaining the listing status of the Unicom Red-chip Company.

11. Transfer of rights and obligations

Without the written consent of the other party, neither party shall proceed to transfer any right and obligation prescribed in this Framework Agreement.

12. Non-waiver

Unless otherwise provided by laws, non-exercise or delayed exercise of the rights, powers or privileges prescribed in this Framework Agreement by either party shall not be regarded as a waiver of such rights, powers or privileges. Moreover, the exercise in part of such rights, powers or privilege shall not keep the party from exercising such rights, powers or privileges in the future.

13. Notification

Any notification relating to this Framework Agreement shall be made in writing by one party to the other party via personal delivery, fax or mail. A notification shall be regarded as "issued" upon delivery by hand, or the "sent" indication is displayed on the sender's fax machine, or on the third working day (subject to extension in case of statutory holidays) after sending of the mail. Any notification upon issuance shall be regarded as entering into force.

14. Applicable laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

15. Dispute settlement

Any dispute between the two parties concerning the effectiveness, interpretation or implementation of this Framework Agreement shall be settled through friendly consultation. If a case can not be settled through negotiation within thirty (30) days after the dispute arises, either party is entitled to file a lawsuit with the people's court of the corresponding jurisdiction.

16. Miscellaneous

- 16.1 On condition that the Unicom Red-chip Company complies with or meets the regulatory requirements on connected transactions, the two parties can proceed to amend or supplement this Framework Agreement based upon consensus.
- 16.2 Upon signing of this Framework Agreement, in case of conflict with any agreement reached prior to this Framework Agreement on any matter relating to the provisions established in this Framework Agreement, the contents of this Framework Agreement shall prevail.
- 16.3 This Framework Agreement is divisible, i.e., if any provision of this Framework Agreement is identified as illegal, invalid or unenforceable at any time, the validity and execution of other provisions of this Framework Agreement shall not be affected.
- 16.4 This Framework Agreement is produced in four (4) copies, with each party holding two (2) copies and all the original copies being equally authentic.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Framework Agreement for Support Services

between

China Network Communications Group Corporation

and

China Unicom Corporation Limited

This Framework Agreement for Support Services (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)
Registered Address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)
Registered Address: Level 12, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing
Legal Representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of

three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full service operation. In the above notice, China Telecom is encouraged to buy China Unicom's CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom's red-chip counterpart via an agreement (the "Merger Transaction"). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) Party B is in need of the support services provided by Netcom Group in the operations of its telecommunications business.

On the basis of equality and reasonableness and through friendly consultations, Party A and Party B reach the following framework agreements on the matters with respect to the provision of support services by Party A (including subsidiaries and branches of Party A and other entities controlled by Party A and excluding Netcom Red Chip, subsidiaries and branches of Netcom Red Chip, and other entities controlled by Netcom Red Chip, the same below) to Party B (including subsidiaries and branches of Party B and other entities controlled by Party B, the same below).

1. Basic Principles

- 1.1 With respect to the support services provided by Party A for Party B pursuant to this Framework Agreement, Party A has the right to charge reasonable service fees pursuant to this Framework Agreement and Party B has the obligation to make such payments.
- 1.2 The terms and conditions for the provision of support services under this Framework Agreement by Party A shall be no worse than the terms and conditions offered by Party A for any third party for the provision of identical or similar services.
- 1.3 In the event that Party A fails to perform all or part of its obligations to provide the support services under this Framework Agreement due to any reasons other than its own fault, Party A shall promptly inform Party B in writing and make the utmost efforts to assist Party B in obtaining identical or similar services from other channels.
- 1.4 The support services provided by Party A for Party B shall comply with the purposes agreed by the Parties and related standards of the State.
- 1.5 In the event that one party suffers loss as a result of the violation against the provisions of this Framework Agreement by the other party, the breaching party shall undertake timely and full liability to pay compensation for the breach of contract.
- 1.6 When one party performs the obligations under this Framework Agreement, the other party shall provide reasonable and necessary assistance.

2. Basic Contents of Support Services

The compressive services provided by Party A under this Framework Agreement include:

dining services, equipment leasing services (excluding the facilities/equipment covered in this Framework Agreement for Telecommunications Facilities Leasing), motor vehicles services, medical and healthcare services, labour services, security services, hotel services, conference services, flower and gardening services (landscaping), decoration services, commodity sales services, basic construction agency services, equipment maintenance services, market development services, technical support services, research and development services, hospitality services, parking services, employee training services, warehousing services (such as warehousing telecommunications-related equipment, including spare parts and circuits), advertising (such as the production and publication of Party B's advertisements on Party A's media) and publicity/printing services, and property management services.

3. Pricing Principles

- 3.1 The pricing and/or charging standards for the support services under this Framework Agreement shall follow the principles and procedures stipulated in this clause. Where the Government fixes a price for such a service, the price fixed by the Government shall be followed. Where the Government recommends (or sets a guidance price) a price for such a service, the price shall be determined with the reference to the price recommended by the Government. Where there is neither a government-fixed price nor a government-recommended price but there is a market-based price for such a service, the price shall be determined with reference to the market-based price. Where there is neither a government-fixed price nor a government-recommended price, nor the market-based price, the price shall be determined by the Parties through negotiations. The negotiated price shall be determined on a reasonable cost plus reasonable profit basis. The reasonable cost shall be the cost agreed by the Parties through negotiations.

The government-fixed price referred in this clause is the price fixed by the price administration authorities of the Government or other related agencies within their pricing purview and scope in accordance with the provisions of the Price Law of the PRC.

The government-recommended price (or government-guidance price) referred in this clause is a basic price and floating ranges set by the price administration authorities of the Government or other related agencies within their pricing purview and scope in accordance with the provisions of the Price Law of the PRC. The enterprises could, within the limits of the guidance, make their own decisions on prices.

The market-based price referred in this clause is the price set by the enterprises with consideration to the competition in the market. The market-based price shall be determined in the follow procedures: (1) the price charged by the independent third party for providing such a service at the same place or in the neighbouring areas under normal market conditions; or (2) the price charged by the independent third party for providing such a service in the territory of China under normal market conditions;

- 3.2 The specific amount of service fees under this Framework Agreement shall be calculated in accordance with the accounting standards of the PRC (if applicable) from time to time.
- 3.3 Party A and Party B shall audit the pricing standards for the next financial year for every service and facility provided under this Framework Agreement before December 31 of the year (if necessary).
- 3.4 It is expected that Party A and Party B shall conclude specific implementation agreements for related services from time to time as necessary. This specific implementation agreements shall identify the specific services required by Party B and contain provisions in relation to the binding principles, standards, terms and conditions of this Framework Agreement.

4. Payment of Service Fees

- 4.1 Party B shall pay service fees for related services it obtains from Party A or Party A's consignee in accordance with the pricing and charging standards stipulated in this Framework Agreement, the supplementary agreements to this Framework Agreement (if any) and the specific implementation agreement.
- 4.2 In case that Party B fails to pay service fees for related services on time in accordance with this Framework Agreement, the supplementary agreements to this Framework Agreement (if any) and the specific implementation agreements, Party B shall pay a late fee of 0.05% of the amount of the outstanding amount per day (calendar day, the same below) as of the day when the payment is overdue. When the overdue days exceed 60 (sixty) days, Party A may inform Party B in writing of terminating related services. If Party B fails to make payment for related services 30 (thirty) days after it receives the notice, Party A may declare the termination of related services. When such services are terminated or suspended, it shall not

affect the rights and obligations of both Party A and Party B arising out of this Framework Agreement.

5. Rights and Obligations of the Parties

5.1 Rights and Obligations of Party B

5.1.1 Rights of Party B

- (1) Party B has the right to obtain services from Party A pursuant to the provisions of this Framework Agreement;
- (2) With respect to the connected transactions under this Framework Agreement, the auditor of Unicom Red-chip Company has the right to examine the accounting records of Party A and Party A's connected parties.

5.1.2 Obligations of Party B

- (1) Party B shall ensure that its subsidiaries, branches and other controlled entities will sign specific implementation agreement with Party A pursuant to this Framework Agreement and the supplementary agreements to this Framework Agreement (if any) and/or urge its subsidiaries, branches and other controlled entities to do so;
- (2) Party B is obliged to coordinate the matters in relation to the specific implementation agreement;
- (3) Party B is obliged to pay related service fees pursuant to the provisions of this Framework Agreement and the specific implementation agreements;
- (4) Party B pledges to compensate for any loss caused upon Party A or the other party of the specific implementation agreement by its violation against any of the provisions of this Framework Agreement or the specific implementation agreement.

5.2 Rights and Obligations of Party A

5.2.1 Rights of Party A

- (1) Party A has the right to obtain service fees from Party B pursuant to the provisions of this Framework Agreement;
- (2) Party A has the right to provide the same type of services to the third party on the conditions of guaranteeing the offering of the services stipulated in this Framework Agreement to Party B.

5.2.2 Obligations of Party A

- (1) Party A shall ensure that its subsidiaries, branches and other controlled entities will sign specific implementation agreement with Party B pursuant to this Framework Agreement, the supplementary agreements to this Framework Agreement (if any) and/or urge its subsidiaries, branches and other controlled entities to do so;
- (2) Party A is obligated to provide services of outstanding quality for Party B and supervise its subsidiaries, branches and other controlled entities to provide services of outstanding quality for Party B;
- (3) Party A is obliged to coordinate the matters in relation to the specific implementation agreement;

- (4) Party A pledges to compensate for any loss caused upon Party B or the other party of the specific implementation agreement by its violation against any of the provisions of this Framework Agreement or the specific implementation agreement.

5.3 Party A and Party B hereby confirm that they have the obligation to further take other necessary actions and measures for the fulfilment of the purposes and agreed contents of this Framework Agreement and that under the conditions that Party B is a subsidiary of Unicom Red-chip Company, this Framework Agreement is in compliance with the rules governing connected transactions in the Listing Rules of Hong Kong Stock Exchange.

6. Priorities

- 6.1 For the same service, Party B shall grant preference to Party A if terms and conditions offered by the third party are no better than those offered by Party A.
- 6.2 Party A pledges that the conditions offered by Party A for the same or similar services under this Framework Agreement to the third party will not be better than the terms offered to Party B.
- 6.3 Party A has the right to provide the same type of services to third parties on the condition of not affecting the offering of the services pursuant to this Framework Agreement to Party B.

7. Representations, Warranties and Commitments

Each party of this Framework Agreement makes the following representations, warranties and commitments to the other party:

- 7.1 Each party is independent legal person duly established and existing under the laws of China and it has full power and authorization (including but not limited to obtaining the approval, agreement or license from related government authorities) to make and execute this Framework Agreement;
- 7.2 No provision in this Framework Agreement shall constitute a violation against the Articles of Association, documents of such nature or the laws and regulations of the PRC;
- 7.3 Each party shall make the utmost efforts to adopt or urge others to adopt any necessary, appropriate or possible actions in accordance with the laws and regulations of China and this Framework Agreement.

8. Effectiveness

This Framework Agreement will take effect on the next day following the final implementation of the Merger Transaction.

9. Force Majeure

- 9.1 In the event that either party of this Framework Agreement fails to perform part or all of the obligations stipulated in this Framework Agreement owing to a Force Majeure event, the prevented party shall be exempted from the breach of contract liabilities. But the prevented party shall inform the other party and provide authoritative proof regarding the Force Majeure event in writing within 15 (fifteen) days when the Force Majeure event happens and make the utmost efforts to minimize the loss caused by the Force Majeure event. Within a reasonable period time after the influence of the Force Majeure event is eliminated, the prevented party shall continue to execute this Framework Agreement.
- 9.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. Confidentiality

Without the written agreement of the other party, one party shall not make public announcement regarding the materials and information in relation to the business of the other party or the matters of this Framework Agreement or provide or disclose such materials and information for or to the third party, except as otherwise required by the laws of China, government authorities, or securities regulatory authorities or for the purpose of maintaining Unicom Red-chip Company.

11. Transfer of Rights and Obligations

Without the written consent of the other party, neither party shall transfer any rights and obligations under this Framework Agreement.

12. Non-Waiver

Unless otherwise stipulated by the laws, failure or delay on the part of any party to exercise any right, power or privilege under this Framework Agreement shall not operate as the waiver of such right, power or privilege thereof and the exercise of such right, power or privilege in part by one party shall not affect the exercise of such right, power or privilege in the future.

13. Governing Laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

14. Notification

Notifications required to be given by one party pursuant to this Framework Agreement shall be made in writing and may be delivered personally, by facsimile transmission or by courier service. Notices given by personal delivery shall be deemed effectively given on the date of personal delivery. Notices sent by facsimile transmission shall be deemed effectively given at the time as indicated by the printer. Notices sent by courier service shall be deemed effectively given on the third working day (to be extended to the next day in case of statutory holidays) after they are posted. The notice shall come into effect since the date of delivery.

15. Dispute Settlement

Any dispute over the effect, interpretation or exercise of this Framework Agreement shall be first resolved through friendly consultations by both parties. In the event that the dispute is not resolved within 30 (thirty) days since the start of the dispute, either party can submit the dispute case to the local people's court that have jurisdiction over the case for legal proceedings.

16. Miscellaneous

16.1 Unicom Red-chip Company, for the purpose of complying with or satisfying the regulatory requirements on connected transactions, may amend and supplement this Framework Agreement after the friendly consultations.

16.2 In case of any discrepancy between this Framework Agreement and the agreements made by the Parties prior to the signing of this Framework Agreement, this Framework Agreement shall prevail after being signed by the Parties.

16.3 This Framework Agreement is severable. If any provision of this Framework Agreement is held illegal, invalid or unenforceable, the effect and exercise of other provisions of this Framework Agreement shall not be affected.

16.4 This Framework Agreement is made in 4 (four) original copies, with each party holding two copies. All the copies are equally binding.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for Signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Framework Agreement for Telecommunications Facilities Leasing

Between

China Network Communications Group Corporation

&

China Unicom Corporation Limited

This Framework Agreement for Telecommunications Facilities Leasing (hereinafter referred to as this “Framework Agreement”) is signed on August 12, 2008 in Beijing, the People’s Republic of China (“PRC”) by and between the following two parties:

Party A: **China Network Communications Group Corporation** (hereinafter referred to as “Netcom Group”)
Registered Address: No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing
Legal Representative: Zhang Chunjiang

Party B: **China Unicom Corporation Limited** (hereinafter referred to as “CUCL”)
Registered Address: Level 12, Tower A, Henderson Center, No. 18, Jian Guo Men Nei Avenue, Beijing
Legal Representative: Chang Xiaobing

Whereas:

- (1) Netcom Group is a state owned enterprise duly incorporated and validly existing under the laws of the PRC;
- (2) CUCL is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by China United Telecommunications Corporation Limited (the “Unicom Red-chip Company”, a company duly incorporated and validly existing under the laws of the Hong Kong Special Administration Region and dually listed on the Hong Kong Stock Exchange). Approved by the former Ministry of Information Industry (“MII”) of the PRC, CUCL is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (3) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full services operation. In the above notice, China Telecom is encouraged to buy China Unicom’s CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red-chip Company is to merge with Netcom’s red-chip counterpart via an agreement (the “Merger Transaction”). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the

New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red-chip Company;

- (4) In its operations of telecommunications services, Party B desires to use Netcom Group's telecommunications facilities.

On the basis of equity and fairness and following friendly consultation, Party A (including Party A's branches, subsidiaries and other units under its control, but excluding the Netcom Red-chip Company and its affiliates, subsidiaries and other units under its control, the same below) and Party B (including Party B's branches, subsidiaries and other units under its control, the same below) enters into a Framework Agreement on telecommunications facilities leasing and other related matters as follows:

1. Telecommunications Facilities Leasing

The two parties agree that Party B can lease Party A's international communications channel gateways (including international submarine cable landing stations, international land cable entry points, stations or entry extension terminal stations, as well as international satellite earth stations), international communications services gateways (including international telephone exchanges, the STPs of the international telephone network, ATM/FR, DDN, international IP exchanges), the international submarine cable capacity, international land cables and international satellite transponders and other international telecommunications resources ("International Telecommunications Resources"); the inter-provincial optical fiber facilities ("Inter-Provincial Transmission Fibers") owned by Party A but located within Party B's business areas; as well as other telecommunications facilities owned by Party A but needed by Party B in its services operations ("Telecommunications Resources and Facilities").

2. Basic Principles

- 2.1 The leasing of Telecommunications Resources and Facilities from Party A to Party B pursuant to this Framework Agreement is regarded as a paid business transaction between the two parties. Based on the principle of equity and fairness, Party A is entitled to charge Party B a reasonable amount of rental fees for the resources and facilities to be leased.
- 2.2 The conditions governing the leasing of Telecommunications Resources and Facilities from Party A to Party B pursuant to this Framework Agreement shall be no less favourable than those granted to any other third-party from Party A as and when the same or similar facilities are provided.
- 2.3 If Party B requests Party A to provide more resources and/or facilities under this Framework Agreement, Party B shall make its best efforts to provide such facilities as required by Party B. The conditions governing the leasing of such resources and/or facilities shall be no less favourable than those granted to any other third parties as and when the same or similar resources and/or facilities are provided.
- 2.4 If the resources and/or facilities under this Framework Agreement could not be provided in part or in full as a result of Party A's oversight, Party A shall notify Party B promptly in writing, and make its best efforts to assist Party B in receiving the same or similar resources and/or facilities from other sources.
- 2.5 The provision of resources and/or facilities under this Framework Agreement shall comply with the purpose of use provided in this Framework Agreement as well as relevant state standards.
- 2.6 Party A undertakes to provide to the auditor of the Unicom Red-chip Company the accounting records between Party A and its connected persons in respect of the connected transaction.
- 2.7 In the event of losses incurred to either party as a result of breach of this Framework Agreement, the party in breach shall claim in time full responsibilities with regard to the breach (including but not limited to direct or indirect losses inflicted upon the other party). However, if the loss in question is caused by force majeure, no party shall be held responsible.
- 2.8 During implementation of the obligations prescribed in this Framework Agreement by either party, the other party shall undertake to provide assistances where necessary.

2.9 It is confirmed that the two parties are obligated to take further actions and measures where necessary to ensure the realization of the purposes and provisions prescribed in this Framework Agreement. Moreover, the provisions relating to connected transactions in the listing rules of the Hong Kong Stock Exchange will be observed if Party B is a subsidiary of the Unicom Red-chip Company.

3. Basic Contents about Leasing of Telecommunications Resources and Facilities

3.1 Party B can lease Party A's International Telecommunications Resources.

3.2 Party B can lease Party A's Inter-Provincial Transmission Fibers.

3.3 Party B can lease other Telecommunications Resources and Facilities owned by Party A.

3.4 The two parties can make adjustments where necessary to the scope, type and quantity of Telecommunications Resources and Facilities at any time. Such adjustments shall be mutually confirmed once a year.

4. Obligations

4.1 Party B is responsible for maintaining the rented International Telecommunications Resources and Inter-Provincial Transmission Fibers at its own expense in accordance with relevant regulations and specifications.

4.2 The two parties can determine through consultation which party is to undertake the maintenance task in part or in full of the telecommunications facilities, in which case the relevant costs shall be borne by Party B (unless otherwise agreed by the two parties); if Party A undertakes the maintenance task in part or in full of the telecommunications facilities, Party B shall make compensations to Party A for the costs arising therefrom.

4.3 Party B shall make good use of the leased Telecommunications Resources and Facilities. In the life of this Framework Agreement and to the extent permitted by the laws where applicable, Party B is entitled to lease the Telecommunications Resources and Facilities to third parties as part of its normal Network Element (NE) leasing services, for which the rates shall be based on relevant state regulations and the principles of equity and fairness.

4.4 If Party B deems it necessary to cut off the Telecommunications Resources and Facilities for the sake of maintenance and other reasons, a prior notice shall be issued to Party A within a reasonable period of time.

5. Quality Assurance

5.1 Party A shall ensure that the quality of its Telecommunications Resources and Facilities to be leased are in line with national standards and regulations.

5.2 Party B shall ensure that its telecommunications equipment to be connected to the Telecommunications Resources and Facilities is in line with the quality standards and technical requirements provided by the competent national authorities.

6. Fees and Payment

6.1 The rental fee to be paid by Party B for the Telecommunications Resources and Facilities shall be equal to the annual depreciation of such resources and facilities and no higher than the market price.

6.2 Within three months following the end of each year, the two parties shall carry out a review of the rental fee of the Telecommunications Resources and Facilities (if necessary) provided pursuant to this Framework Agreement. Adjustments shall be made in the next year with regard to the rental fee errors (if any) identified in the review process.

- 6.3 The expenses to be paid under 4.2 of this Framework Agreement shall be determined with reference to the market price. In case that no market price is available, the price shall be worked out by the two parties through negotiation. However, the price shall be negotiated on a cost-plus basis, and the cost acceptable to the two parties shall also be determined through negotiation.
- 6.4 Within ten working days following the end of each quarter, Party B shall provide to Party A a list of rental charges of the previous quarter, as well as a list of the charges and fees provided pursuant to Article 6.3 of this Framework Agreement. Meanwhile, Party B shall pay Party A the balance of rental charges after deduction of the relevant charges provided pursuant to Article 6.3 of this Framework Agreement. After receipt of the payment, Party A shall issue a statement of payment to Party B. Where dispute arises, adjustments can be made in the next quarter upon confirmation by the two parties.
- 6.5 The two parties shall pay rental charges and fees therewith in light of the articles heretofore. In the event of overdue payment, a penalty charge of 0.05% of the amount due will be imposed on the party owing the payment for each day (1 day) of outstanding payment.

7. Representations, Assurances and Commitments

Each party of this Framework Agreement makes the following representations, assurances and commitments to the other party:

- 7.1 Each party is an independent legal person incorporated for effective duration in accordance with Chinese laws, with full power and authority (including but not limited to the approval, permission or consent given by competent government departments) to sign and implement this Framework Agreement;
- 7.2 No provision contained in this Framework Agreement is in violation of either party's association documents or Chinese laws and regulations;
- 7.3 Each party will do its utmost to take or cause other people to take any necessary, appropriate or desirable action in line with Chinese laws, regulations as well as this Framework Agreement, with a view to enabling the effective implementation of those matters prescribed in this Framework Agreement.

8. Effectiveness

This Framework Agreement will take effect on the next day following the final implementation of the Merger Transaction.

9. Force Majeure

- 9.1 If a party is unable to implement or fully implement the obligations prescribed in this Framework Agreement as a result of force majeure, then it will not undertake any liability for breach of the agreement, in which case the it shall, within fifteen (15) days following the occurrence of force majeure, inform the case to the other party in writing and provide proof therewith, and at the same time make every effort to minimise the losses incurred by force majeure. Within a reasonable period of time in the wake of force majeure, the party falling victim to force majeure shall undertake to continue implementation of this Framework Agreement.
- 9.2 Force majeure in this Framework Agreement means all objective situations that are unforeseeable, unavoidable and that cannot be overcome.

10. Confidentiality

Without the written permission of the other party, neither party shall make any announcement in regard to, or provide or disclose to a third party any data or information in relation to the businesses of the other party or items under this Framework Agreement, unless otherwise required by legal or government departments or securities regulatory bodies, or for the purpose of maintaining the listing

status of the Unicom Red-chip Company.

11. Transfer of Rights and Obligations

Without the written consent of the other party, neither party shall proceed to transfer any right and obligation prescribed in this Framework Agreement.

12. Non-Waiver

Unless otherwise provided by laws, non-exercise or delayed exercise of the rights, powers or privileges prescribed in this Framework Agreement by either party shall not be regarded as a waiver of such rights, powers or privileges. Moreover, the exercise in part of such rights, powers or privilege shall not keep the party from exercising such rights, powers or privileges in the future.

13. Notification

Any notification relating to this Framework Agreement shall be made in writing by one party to the other party via personal delivery, fax or mail. A notification shall be regarded as "issued" upon delivery by hand, or the "sent" indication is displayed on the sender's fax machine, or on the third working day (subject to extension in case of statutory holidays) after sending of the mail. Any notification upon issuance shall be regarded as entering into force.

14. Applicable Laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

15. Dispute Settlement

In the event of a dispute between the two parties regarding the effectiveness, interpretation or execution of this Framework Agreement, friendly consultation shall be sought in the first place. If a case can not be settled through negotiation within thirty (30) days after the dispute arises, either party is entitled to file a lawsuit with the people's court of the corresponding jurisdiction.

16. Miscellaneous

- 16.1 On condition that the Unicom Red-chip Company complies with or meets the regulatory requirements on connected transactions, the two parties can proceed to amend or supplement this Framework Agreement based upon consensus.
- 16.2 Upon signing of this Framework Agreement, in case of conflict with any agreement reached prior to this Framework Agreement on any matter relating to the provisions established in this Framework Agreement, the contents of this Framework Agreement shall prevail.
- 16.3 This Framework Agreement is divisible, i.e., if any provision of this Framework Agreement is identified as illegal, invalid or unenforceable at any time, the validity and execution of other provisions of this Framework Agreement shall not be affected.
- 16.4 This Framework Agreement is produced in four (4) copies, with each party holding two (2) copies and all the original copies being equally authentic.

IN WITNESS WHEREOF, this Framework Agreement is executed by the legal representatives or his authorized representatives of both parties on the date first written above.

Page for Signatures:

China Network Communications Group Corporation (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

COMPREHENSIVE SERVICES AGREEMENT

between

China Unicom Corporation Limited

and

China United Telecommunications Corporation Limited

August 12, 2008

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This Comprehensive Services Agreement (hereinafter referred to as this “Agreement”) is entered into on October 26, 2006 in Beijing, the People’s Republic of China (hereinafter referred to as the “PRC”) by and between the following parties:

- (1) Party A: **China Unicom Corporation Limited** (hereinafter referred to as the “Unicom Group”)
Address: Room 615, Office Tower 3, Henderson Center, 18 Jianguomen Neidajie, Beijing
Legal Representative: Chang Xiaobing
- (2) Party B: **China United Telecommunications Corporation Limited** (hereinafter referred to as “Unicom A Share Company”)
Address: 29/F, No. 1033, Changning Road, Shanghai
Legal Representative: Chang Xiaobing

Party A and Party B shall be hereinafter collectively referred to as the “Parties” and each individually as a “Party”.

WHEREAS:

- (1) Unicom Group is a limited liability company duly incorporated and validly existing under the laws of PRC and engages in the operation of comprehensive telecommunications business. Unicom A Share Company is a joint stock limited company duly incorporated and validly existing under the laws of PRC and its shares have been listed and traded on the Shanghai Stock Exchange (hereinafter referred to as the “SSE”) since October 9, 2002. Unicom Group is the controlling shareholder of Unicom A Share Company;
- (2) Unicom A Share Company indirectly controls China Unicom Limited (hereinafter referred to as “Unicom Red Chip”) through China Unicom (BVI) Limited (hereinafter referred to as “Unicom BVI”). Unicom Red Chip is a limited liability company duly incorporated and validly existing under the laws of the Hong Kong Special Administrative Region (hereinafter referred to as “Hong Kong”) and its shares are listed and traded in Hong Kong and the U.S. respectively;
- (3) China Unicom Corporation Limited (hereinafter referred to as “Unicom Operating Company”) is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by Unicom Red Chip. Unicom Operating Company is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (4) China Netcom (Group) Company Limited (hereinafter referred to as “Netcom Operating Company”) is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, and is wholly owned by China Netcom Group (Hong Kong) Limited (a company duly incorporated and validly existing under the laws of Hong Kong with its shares listed on the Stock Exchange of Hong Kong Limited and New York Stock Exchange, hereinafter referred to as “Netcom Red Chip”). Netcom Operating Company mainly engages in the operation of related telecommunications business in 10 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mongolia and Shanxi;
- (5) On August 22, 2002, Unicom Group and Unicom A Share Company signed a Memorandum in respect to transactions between Unicom Group or its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by Unicom A Share Company) and Unicom Red Chip indirectly controlled by Unicom A Share Company and its subsidiaries after the listing of the shares of Unicom A Share Company (hereinafter referred to as “Memorandum on Connected Transactions”). According to the understanding reached under the Memorandum on Connected Transactions, if based on the Rules Governing the Listing of Shares on Shanghai Stock Exchange (hereinafter referred to as the “SSE Listing Rules”) applicable from time to time,

transactions between Unicom Red Chip Company or its subsidiaries and Unicom Group or its subsidiaries (excluding Unicom A Share Company and its subsidiaries) are subject to the approval of minority shareholders of Unicom A Share Company, and at the same time, based on the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the “HKSE Listing Rules”) applicable from time to time, they are deemed to be connected transactions that are subject to the approval of the minority shareholders of Unicom Red Chip, such connected transactions shall be conducted in two steps. First step: an agreement shall be entered into between Unicom Group or its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by it) and Unicom A Share Company or Unicom BVI in respect of any proposed transaction to specify the rights and obligations of the parties under this Agreement (including but not limited to Unicom Group agreeing to the transfer of rights and obligations of Unicom A Share Company or Unicom BVI under agreement to Unicom Red Chip or its subsidiaries); Second step: the transfer of the rights and obligations under the above-mentioned agreement by Unicom A Share Company or Unicom BVI to Unicom Red Chip or its subsidiaries;

- (6) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full services operation. In the above notice, China Telecom is encouraged to buy China Unicom’s CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red Chip is to merge with Netcom Red Chip via an agreement (the “Merger Transaction”). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red Chip;
- (7) For the purpose of the operation of telecommunications business by Unicom Red Chip and its subsidiaries, pursuant to the relevant provisions under the SSE Listing Rules, HKES Listings Rules and Memorandum on Connected Transactions, Unicom Group and its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by it), through Unicom A Share Company, entered into the Comprehensive Services Agreement, the Comprehensive Services Agreement based on the Artificial Platform and the Building Lease Agreement (hereinafter referred to as the “Original Comprehensive Services Agreement”) with Unicom Operating Company in 2006 and pursuant to the above agreements, arrangements have been made for a series of continuing connected transactions (hereinafter referred to as “Continuing Connected Transaction Arrangements”), which have been announced in accordance with the respective listing rules applicable to Unicom A Share Company and Unicom Red Chip and approved by their respective independent shareholders. The above Continuing Connected Transaction Arrangements have a term of 3 years, commencing on January 1, 2007 and ending on December 31, 2009.

Based on the actual implementation of the relevant Continuing Connected Transaction Arrangements, after the joint review and negotiations and on the basis of equality and mutual benefit, the Parties hereby agree on the followings:

1. Basic principles

- 1.1 The “Comprehensive Services” under this Agreement refers to certain services and facilities provided by one Party hereto to the other Party or provided by the Parties hereto to each other and the related expenses (hereinafter referred to as the “Service Fees”) are to be paid by the recipient to the provider. Unless otherwise agreed, each Party shall be entitled to arrange any of its subsidiary (as determined under the Enterprise Accounting Standards revised from time to time by the Ministry of Finance) to provide or receive any related services in accordance with the terms and conditions stipulated in this Agreement and receive or pay the Service Fees.
- 1.2 Services and/or facilities provided by either Party hereto to the other Party under this Agreement are non-gratuitous transactions based on the economic relationship between enterprises. One

party shall be entitled to charge reasonable Service Fees for the services and/or facilities it provides based on the fair market principles and the other party shall perform its corresponding payment obligations.

- 1.3 Conditions and quality of the services and/or facilities provided under this Agreement by any Party hereto to the other Party shall not be inferior to the condition and quality of the same or similar services and/or facilities provided by such party to any third party. The exercise of the rights under this Agreement or the performance of the obligations under this Agreement by any Party hereto shall be conducted on an arm's length basis.
- 1.4 If any Party hereto requires the other Party to increase the supply of any of the services and/or facilities under this Agreement, the other Party shall make its best efforts to provide such requested services and/or facilities, of which the conditions and quality shall not be inferior to the conditions and quality of the services and/or facilities provided to any third party.
- 1.5 In the event that any Party hereto is unable to provide, in whole or in part, the services and/or facilities under this Agreement due to any reasons other than its own fault, such Party shall notify the other Party in a timely manner, and make its best efforts to assist the other Party in obtaining the same or similar services and/or facilities through other channels.
- 1.6 The supply of any services and/or facilities under this Agreement shall comply with the use purposes as agreed by the Parties and relevant national standards.
- 1.7 In case that either Party breaches this Agreement, which has caused the other Party to incur any damages, such Party shall bear the corresponding liabilities for such breach (including but not limited to the direct and indirect damages caused to the other Party due to such breach). However, either Party shall be liable for any damages caused to the other Party due to force majeure.
- 1.8 When either Party hereto performs its obligations under this Agreement, the other Party shall provide reasonable and necessary assistance to such Party.
- 1.9 Subject to Article 1.3 under this Agreement and on condition that the fee standards of the provider not higher than those of any independent third parties, the recipient agrees to select the services provided by the provider.
- 1.10 In the event that there is an independent third party in the area where the provider provides its services, and if (i) the quality of the services provided by such third party is better than that provided by the provider; or (ii) the fee standards for supplying services of the same standards are lower than the fee standards of the provider, the recipient shall, after giving a notice in writing to the provider, be entitled to terminate the supply of the related services provided by the provider within such area, and the recipient shall not be liable for any compensation.

2. Basic contents of the comprehensive services

- 2.1 The comprehensive services to be provided by the Parties hereto to each other under this Agreement and the related agreements are set out in the following annexes:

Annex 1: Interconnection Arrangements (to be provided by the Parties to each other);

Annex 2: Supply of Telephone Cards (to be provided by Party A to Party B);

Annex 3: Equipment Procurement Services (to be provided by Party A to Party B);

Annex 4: Premises (to be provided by the Parties to each other);

Annex 5: International Telecommunications Network Gateways Services (to be provided by Party A to Party B);

Annex 6: Operator-Based Value-Added Services (to be provided by Party A to Party B);

Annex 7: Value-Added Telecommunications Services (to be provided by Party A to Party B);

Annex 8: "10010/10011" Customer Services (to be provided by Party A to Party B);

Annex 9: Agency Services (to be provided by Party A to Party B);

Annex 10: Engineering Design and Technical Services (to be provided by Party A to Party B).

3. Principles of pricing and payments

- 3.1 The principles of pricing and/or fee standards for the services under this Agreement are set out in various annexes to this Agreement.
- 3.2 The specific amounts of the service fees under this Agreement shall be calculated pursuant to the relevant PRC accounting principles as applicable from time to time.
- 3.3 If the Parties fail to agree upon the amount of any service fees under this Agreement, it shall be submitted to the relevant authority, which shall make a decision with the reference to the spirits and terms of this Agreement and pursuant to the relevant national pricing policies and regulations. The decision made by such authority shall be final and binding on both Parties.
- 3.4 Either Party shall comply with the principles of pricing and fee standards as set out in this Agreement and its annexes, and pay the service fees in a timely manner in respect of the services provided by the other Party.
- 3.5 Either Party hereto, if failing to pay the relevant service fees in a timely manner as agreed, shall pay to the other Party an overdue fine of 0.05% of the outstanding amount for each overdue day. If any amount has been overdue for 60 days, the other Party may terminate the relevant services by giving a notice in writing to such Party. If such Party fails to pay the relevant service fees after 30 days of receipt of such written notice, the other Party shall be entitled to announce the immediate termination of the relevant services. However, the suspension or termination of such services shall not prejudice the rights and obligations previously generated or incurred by both Parties under this Agreement.
- 3.6 In October every year, the Parties shall review the pricing standards and other terms for each service and facility to be provided in the next accounting year under this Agreement and enter into a supplemental agreement. If the Parties fail to reach any agreements on the terms of the supplemental agreement before the specified time, the pricing standards and related terms of the current year shall apply in the next accounting year until the Parties reach an agreement or the dispute can be solved pursuant to Article 3.3.

4. Terms

- 4.1 This Agreement shall be valid for a term of 3 years (the "Valid Term"), commencing on the next day subject to the fulfillment of the conditions under Article 7 of this Agreement.
- 4.2 Unless Party B gives a notice for not renewing this Agreement in writing to Party A 60 days in advance, this Agreement shall be extended for another Valid Term upon the expiry of its Valid Term or the expiry of its extended term subject to the relevant applicable laws, regulations or other regulatory requirements.

5. Statements, warranties and undertakings

- 5.1 Statements, warranties and undertakings of the Parties

The Parties hereto have made the following statements, warranties and undertakings to each other:

- 5.1.1 that it has full power and authority (including but not limited to obtaining the relevant approvals, consents or permits from the relevant government authorities) to sign this Agreement and its annexes;
- 5.1.2 that after executed and sealed with the common seal in the required manner, this Agreement and its annexes shall become valid and binding, and enforceable pursuant to its terms; and
- 5.1.3 that any terms of this Agreement and its annexes shall under no circumstances be in validation of the PRC laws and regulations.

- 5.2 As required by the relevant laws, regulations and listing rules, Unicom Group agrees to continue to support the sustained development of Unicom A Share Company and its subsidiaries (collectively the “Related Operating Subsidiaries”), including:
- 5.2.1 All the business licenses, consents, permits and approvals (including the business license of Unicom Group for engaging in the related telecommunications business and similarly hereinafter) obtained from the national communications industry authorities such as the Ministry of Industry and Information Technology and other authorities currently or in the future and related to the listed businesses of Unicom Operating Company, as well as any other resources allocated and/or obtained (including but not limited to spectrum, frequency, phone numbers, trade marks and names, and similarly hereinafter) shall be usable by its Related Operating Subsidiaries. For the sake of the exclusive interests of the Related Operating Subsidiaries engaging in the listed businesses, Unicom Group shall obtain, maintain, retain and renew such business licenses, consents, permits, approvals and other resources pursuant to the laws, and shall not conduct any acts or omissions that may impair the legality, validity and renewability of such licenses, consents, permits and approvals and other resources or the capacity of the Related Operating Subsidiaries in conducting the listed businesses in accordance with the related laws and regulations. Unicom Group shall conduct any acts or not to act so as to obtain, maintain, retain, renew or extend such licenses, consents, permits and approvals as well as other resources and allow the Related Operating Subsidiaries to conduct their businesses in accordance with the related laws and regulations;
 - 5.2.2 In order to satisfy the needs of the Related Operating Subsidiaries in the operation of the listed businesses, Unicom Group shall arrange the Related Operating Subsidiaries to participate in its existing or future roaming arrangements with third parties under normal commercial terms;
 - 5.2.3 Unicom Group shall not conduct any acts in respect to the shareholding/shares it beneficially owns in the listed group that may lead to the possible loss of its control over the Related Operating Subsidiaries. In order to avoid doubts, the determination of the aforesaid control shall be based on the Enterprise Accounting Standards issued by the Ministry of Finance, as revised from time to time. Subject to the requirements under the related laws, regulations and listing rules, Unicom Group shall also not approve or agree with the occurrence and implementation of the aforesaid acts;
 - 5.2.4 If there are any connected transactions between the Related Operating Subsidiaries and Unicom Group and pursuant to the related laws or listing rules of the place where the listed company’s shares are listed, the relevant accounting records in respect of such connected transactions are required to be audited by the accountants (or auditors and similarly hereinafter) appointed by the Related Operating Subsidiaries, Unicom Group shall agree, for the purpose of such audits, to offer any convenience to the accountants appointed by the Related Operating Subsidiaries to have full access to the relevant accounting records (including the accounting records of Unicom Group and/or its associates);
 - 5.2.5 Unicom Group shall not seek an overseas listing of its businesses or any businesses of its subsidiaries that are similar to the list group’s existing or future businesses unless through Unicom Red Chip;
 - 5.2.6 Unicom Group undertakes that as long as the shares of Unicom A Share Company and Unicom Red Chip are listed and traded and pursuant to the laws or listing rules of the place where the shares are listed, Unicom Group is deemed to be the controlling shareholder and an associate of the controlling shareholder of Unicom A Share Company and Unicom Red Chip, save for the CDMA mobile communications business, Unicom Group shall not engage or participate in, and shall prevent and avoid any of its other subordinate enterprises from engaging or participating in any businesses within the territory of PRC in any way (including but not limited to a wholly owned enterprise,

equity joint venture or cooperative joint venture and directly or indirectly owing the shares or other interest of other companies or enterprises, except through the Related Operating Subsidiaries, and similarly hereinafter), that may compete with Unicom A Share Company or Unicom Red Chip. In case that Unicom Group and/or any of its other subordinate enterprises participate in or conduct any business or activities in any place within the territory of the PRC in any way and at any time which transform into a business that may compete with Unicom A Share Company or Unicom Red Chip, Unicom Group shall immediately stop and/or procure its relevant subordinate enterprises to stop participating in, managing or operating such competing business;

- 5.2.7 If Unicom Group or any of its other subordinate enterprises obtain any governmental approval, authorization or permit to develop any new telecommunications technologies, products or services, or intend to develop any new telecommunications technologies, products or services, or have secured any other operating opportunities, Unicom Group shall directly, and/or procure its relevant subordinate enterprises to immediately inform the Related Operating Subsidiaries of the relevant situation, and shall first provide such governmental approval, authorization or permit and the rights for the development of such new telecommunications technologies, products and services as well as the rights for leveraging on any such operating opportunities to Unicom Operating Company or its subsidiaries in accordance with the needs of the Related Operating Subsidiaries after the completion of the requisite formalities.
- 5.2.8 The Parties hereby agree that the above statements, warranties and undertakings of Unicom Group shall supersede the relevant statements, warranties and undertakings under Section 13, 14, 16, 17 and 18 of Article 3.2 and Article 5.1 and Article 5.2 in the Reorganization Agreement it entered into with Unicom Operating Company on April 21, 2000 while the other terms under the Reorganization Agreement shall remain unchanged.

6. Transfer

- 6.1 Subject to the terms and conditions as stipulated in this Agreement and those as agreed in the Memorandum on Connected Transactions, Party A irrevocably agrees that Party B may transfer its rights and obligations under this Agreement to any of its Related Operating Subsidiaries, and no other consents from Party A is required in respect of the transfer by Party B of its rights and obligations under this Agreement to any of its Related Operating Subsidiaries.
- 6.2 Once Party B has transferred its rights and obligations under this Agreement to any of its Related Operating Subsidiaries, such Related Operating Subsidiaries shall immediately succeed to all the rights and obligations of Party B under this Agreement and Party B shall immediately be released from the relevant rights and obligations to which the Related Operating Subsidiaries have succeeded.

7. Effectiveness

This Agreement shall take effect upon the fulfillment of the following conditions and on the date agreed by the Parties:

- 7.1 The shareholders' general meeting of Party B approves the execution of this Agreement in compliance with the applicable laws, regulations and listing rules;
- 7.2 The shareholders' general meeting of Unicom Red Chip approves the transfer by Party B of its rights and obligations under this Agreement to the Related Operating Subsidiaries in compliance with the applicable laws, regulations and listing rules;
- 7.3 The Merger Transaction is executed and completed.

8. Force majeure

If either Party is unable to perform the relevant obligations under this Agreement or its relevant

annexes in accordance with the applicable provisions as a result of any force majeure events the occurrence and consequence of which is unforeseeable or unavoidable and cannot be overcome, such Party shall immediately inform the other Party of the situation and within fifteen (15) days of any such occurrence, provide the relevant details and valid supporting documents for the failure or partial failure in performing or the reasons for the postpone of the performance of the relevant obligations under this Agreement and its related annexes. The Parties shall negotiate with each other and decide whether to terminate, partly waive or postpone the performance of such obligations according to the extent of impact of such force majeure events on the performance of the obligations.

9. Confidentiality

Save as otherwise required by the laws or the relevant regulatory authorities, or for the purpose of any disclosures by Party B to any regulatory authorities, neither Party shall be entitled to provide or disclose any data or information relating to the operations of the other Party to any companies, enterprises, organizations or individuals without the permission in writing from the other Party.

10. Non-waiver

Unless otherwise required by the laws, no failure or delay by either Party in exercising any of its rights, powers or privileges under this Agreement shall be deemed to be a waiver of such rights, powers or privileges, and any partial exercise of the rights, powers or privileges shall not prejudice the future exercise of such rights, powers or privileges.

11. Notification

Any notice relating to this Agreement shall be made in writing and delivered by one Party hereto to the other Party by hand, by way of facsimile or by mail. If such notice is sent by hand, it shall be deemed to have been served upon delivery. If it is sent by facsimile, it shall be deemed to have been served when the fax machine indicates the fax has been sent. If such notice is sent by mail, it shall be deemed to have been served on the third working days (extended in case of any statutory holidays) after dispatch of the mail. Any notice shall take effect once served.

12. Governing laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

13. Disputes settlement

Save as otherwise required in Article 3.3 of this Agreement, all disputes resulting from the execution of this Agreement or relating to this Agreement shall be settled by the Parties through friendly negotiations. If an agreement for the settlement of the dispute cannot be reached within thirty (30) days upon the request by one Party for settling the dispute through negotiation, either Party shall be entitled to refer the dispute to China International Economic and Trade Arbitration Commission to be solved through arbitration in Beijing by three (3) arbitrators pursuant to the then effective arbitration rules. The language for arbitration shall be Chinese. The arbitration decision shall be final and binding on both Parties. Unless otherwise required by the arbitration tribunal, the arbitration fees shall be born by the losing party.

14. Miscellaneous

14.1 Once this Agreement takes effect, the former continuing connected transaction arrangement shall be terminated immediately.

14.2 Annex 1 to Annex 10 under this Agreement are an integral part of this Agreement and shall have equal status with the text of this Agreement. In the event of inconsistency between the agreements in the annexes of this Agreement and the text of this Agreement, the agreements under the annexes of this Agreement shall prevail.

14.3 Upon reaching an agreement by the Parties through negotiation, the Parties may amend or supplement this Agreement and its annexes and all amendments or supplements shall take effect after executed in writing by the legal or authorized representatives of the Parties and sealed with their common seals.

14.4 This Agreement is severable, that is, if any provisions under this Agreement and its annexes is confirmed to be in violation of the laws or unenforceable, this shall not affect the validity and enforceability of any other articles of this Agreement and its annexes.

14.5 This Agreement is signed in four copies with each party holding two copies. All copies shall have the same legal force.

Page for signatures:

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

China United Telecommunications Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Annex 1: Interconnection Arrangements

1. Types of interconnection

Party B and Party A agree to accomplish the interconnection of the various telecommunications networks between them for the purpose of operating the communications business in relation to their various telecommunications networks.

2. Interconnection technical rules, technical standards, interconnection fee sharing and project construction

2.1 The various types of interconnection between the Parties specified in the above shall comply with the interconnection technical rules and technical standards promulgated by the relevant national communications authorities.

2.2 The Parties shall determine the issues, such as the method for interconnection fee sharing and project construction, through negotiation with reference to the relevant requirements of the national communications authorities.

3. Obligations of the Parties

3.1 The Parties shall ensure that the communications quality between their networks shall not be lower than the communications quality of the similar operations within their respective networks.

3.2 As for the telecommunications businesses (including special businesses and intelligent businesses) provided by either Party hereto to subscribers of its own network, the Party shall, at the request of the other Party, provide the same services to subscribers of the relevant telecommunications network of the other Party unconditionally and promptly, and shall ensure the service quality provided that it is technically feasible.

4. Network management and adjustment

4.1 If any network capacity expansion implemented by either Party might affect the communications of the other Party, the Party shall inform the other Party of such situation six months in advance.

4.2 In case of any adjustment made by either Party to the route system, trunk circuit, signaling mode, cell data and software in its network might affect the communications of the other Party's subscribers, the Party shall inform the other Party of such situation thirty days in advance.

4.3 Either Party shall, at the request of the other Party, offer timely cooperation in any adjustment made by the other Party to the route system, trunk circuit, signaling mode, cell data and software in the network of the other Party and ensure the quality of interconnection.

5. Maintenance, technical failure and failure recovery

5.1 The Parties shall conduct network maintenance in accordance with the relevant regulations promulgated by the relevant national communications authorities from time to time so as to ensure the normal operation of the entire network.

5.2 Either Party shall not terminate the interconnection between the networks without the consent from the other Party.

5.3 In case of any network breakdown or extremely heavy communication traffic, the Parties shall immediately take effective measures to restore the smooth operation.

6. Settlement and payment of the fees

6.1 Settlement principles

(1) Settlement of all the interconnections of the Parties

The Parties agree that settlement shall be made in accordance with the relevant provisions stipulated in the Notice Concerning the Distribution of Settlement for Interconnections and Sharing of Relaying Fees (Xin Bu Dian [2003] No. 454) promulgated by the former Ministry of Information Industry on October 28, 2003.

(2) The Parties further agree that if the settlement made with reference to the settlement method (and its amendments from time to time) promulgated by the relevant national authorities in respect of the similar settlement for interconnection is more favorable for Party B than the above interconnection settlement arrangements, settlement shall be made with reference to such settlement method.

6.2 Fee standards

Interconnection settlement shall be based on Party B's billing information. In case of any discrepancy of more than 3% between the billing information of the Parties, the Parties shall separately determine the settlement basis through negotiations.

6.3 Transmission of billing information and settlement

Any other types of settlements for the interconnection of mobile networks and fixed networks of the Parties

The Parties agree that settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex on a monthly basis.

Annex 2: Supply of Telephone Cards

1. Scope of the special-purpose telecommunications card supply services

Based on its actual needs, Party B may request Party A to supply special-purpose cards (collectively referred to as “special-purpose telecommunications cards” in this annex), including SIM cards, UIM cards, IP phone cards, long-distance cards and rechargeable cards to Party B.

2. Quantity of special-purpose telecommunications cards

2.1 Confirmation of annual and regular card ordering plans

- (1) Party B shall submit its annual plan for ordering special-purpose telecommunications cards for the next year in October each year to Party A pursuant to its annual business development plan.
- (2) Party B shall confirm to Party A its card ordering plans for the periods of May to August, September to December of the current year and January to April of the next year respectively in February, May and September each year. Except for the reasons of force majeure, Party A shall supply special-purpose telecommunications cards in accordance with the card ordering plans confirmed by Party B.

2.2 Rush order/temporary order

Party B shall be entitled to make any adjustments to the aforesaid card ordering plans. As to the rush orders/temporary orders, Party A shall try all its best efforts to satisfy the orders and confirm to Party B within 3 days upon receiving Party B’s request whether it can provide the relevant special-purpose telecommunications cards according to Party B’s requirements.

3. Price of special-purpose telecommunications cards

3.1 The Parties agree that the price of special-purpose telecommunications cards shall be determined in accordance with the actual costs (including the cost for importing special-purpose telecommunications cards, costs of production and costs for supplying special-purpose telecommunications cards to Party B) incurred by Party A in providing special-purpose telecommunications cards, plus a profit margin of not more than 20% of the costs as agreed by the Parties from time to time. The Parties agree that certain discounts shall be offered through consultation based on the quantity of special-purpose telecommunications cards ordered by Party B.

3.2 For any rush orders /temporary orders made by Party B in addition to the normal card orders, Party A may, at its discretion, charge an additional fee of not more than 10% on the basis of the price of special-purpose telecommunications cards as set forth in the above.

3.3 The Parties agree to make a review and determine the exact sale price for each kind of special-purpose telecommunications cards for the next year in December each year.

4. Time and venue for the delivery of special-purpose telecommunications cards

Party A shall deliver special-purpose telecommunications cards to the locations specified by Party B in accordance with the time stipulated in the card ordering plans and the arrangements for rush orders/temporary orders.

5. Quality of special-purpose telecommunications cards

5.1 Party A guarantees that the quality of special-purpose telecommunications cards supplied by it complies with the standards formulated by the relevant national authorities and any requisite evidencing certificates would be provided.

- 5.2 Party A guarantees that all the numbers and passwords of the special-purpose telecommunications cards supplied by it shall be produced under a secure and reliable environment. Party A also guarantees the technology, security and confidentiality of such numbers and passwords.
- 5.3 If Party B raises any question about the quality of special-purpose telecommunications cards within 5 days upon receipt of the special-purpose telecommunications cards supplied by Party A, Party A shall be responsible for the replacement and/or repair of any defective special-purpose telecommunications cards, so that they will meet the relevant standards and the requirements of Party B, unless the defect is caused by Party B.
- 5.4 If Party B suffers any losses due to the quality problems of special-purpose telecommunications cards not identified by it after it has made reasonable efforts, Party A shall indemnify Party B for all direct losses incurred by Party B due to those quality problems.
6. Payment
- 6.1 Party B shall make an advance payment of the amount equivalent to 15% of the aggregate purchase price for the special-purpose telecommunications cards ordered by it to Party A when confirming the card order;
- Party B shall make a payment of the remaining balance equivalent to 85% of the aggregate purchase price for the special-purpose telecommunications cards ordered by it to Party A when Party A delivers all the special-purpose telecommunications cards in accordance with the relevant card order placed by Party B;
- 6.2 Payment for rush orders/temporary orders
- Upon confirmation of any rush orders/temporary orders placed by Party B, Party B shall promptly make a full payment (including the rush order charge) to Party A and request Party A to deliver the relevant special-purpose telecommunications cards in a timely manner.
7. Other telephone cards
- Party B may request Party A to supply any other special-purpose telecommunications cards according to its business development needs. Party A shall supply such cards if there is a feasible plan after making an overall consideration of certain factors, such as specific technologies and operation conditions.
- The Parties agree to negotiate with each other on issues such as the quantity, price and payment of any other special-purpose telecommunications cards. The price of the relevant special-purpose telecommunications cards shall be determined on the basis of the actual costs incurred by Party A in providing such cards, plus a profit margin of not more than 20%.

Annex 3: Equipment Procurement Services

1. Scope of equipment procurement services

In accordance with its actual needs, Party B requests Party A (through any subsidiaries controlled by it) to act as its agent responsible for purchasing telecommunications equipment and other materials from the overseas.

Party A shall, in accordance with the requirements of Party B, provide comprehensive procurement services including tender invitation, consultation and agency.

2. Procedures for equipment procurement services

The Parties agree that Party A shall provide equipment procurement services to Party B in accordance with the Notice on the Provisions for the Procurement of Communications Equipment by China United Telecommunications Corporation Limited (China Unicom Mao Zi [2003] No.754), Notice on the Administrative Measures for the Import of Communications Equipment by China United Telecommunications Corporation (China Unicom Mao Zi [2004] No.8) and the provisions stipulated in other relevant documents as agreed by the Parties to be applicable.

3. Equipment procurement service fees and payment

3.1 Party B shall pay service fees for equipment procurements to Party A:

- (1) For foreign trade contracts for equipment procurements with a contract price of less than US\$30 million (including US\$30 million), the service fees shall be charged at 0.55% of the contract price. For contracts with a contract price more than US\$30 million, the service fees (including bank charges) shall be charged at 0.35% of the contract price;
- (2) For domestic trade contracts for equipment procurements signed by Party A as the agent with a contract price of less than RMB200 million (including RMB200 million), the service fees shall be charged at 0.25% of the contract price. For contracts with a contract price of more than RMB200 million, the service fees shall be charged at 0.15% of the contract price.

3.2 Party B agrees to pay service fees to Party A on a monthly basis.

For any overdue service fees, Party B shall pay an overdue fine to Party A at 0.5% of any outstanding amount for each day.

Annex 4: Premises

1. Use and purpose of property
 - 1.1 Any Party hereto agrees that it (or any subsidiaries controlled by it) (hereinafter referred to as the “Provider”) shall provide certain property owned by itself (hereinafter referred to as “Self-owned Property”) and certain property the use rights of which are obtained from third parties (hereinafter referred to as “Third-party Property”) (including sites, buildings, air conditioners, power supply, power equipment and related ancillary facilities) to the other Party (hereinafter referred to as the “Recipient”) for its use in accordance with any request made by the other Party from time to time.
 - 1.2 The Recipient shall use the aforesaid property of the Provider for the purpose of offices, business premises, retail stores and business operation.
 - 1.3 The Provider shall make the relevant property available for examination by the Recipient before signing a formal use or lease agreement. The property shall be in good condition and meet the requirements of the Recipient.
2. Fees and payment
 - 2.1 For the use of any Self-owned Property as provided by the Provider, the fees or rentals to be paid by the Recipient shall be determined in accordance with the lower of the depreciation costs of such property or the market price for using similar property in the place where such property is located. Notwithstanding the above provisions, the Provider may choose to charge the fees according to the market price of the place where the relevant property is located.
 - 2.2 For the lease of buildings, apart from paying the building rentals, the Recipient shall separately pay the expenses (hereinafter referred to as “Miscellaneous Expenses”) for water, electricity and air conditioning actually consumed or used by the Recipient and the property management fees for the leased buildings on schedule pursuant to the price or charge standards set by the relevant pricing authorities. Except the aforesaid rentals, Miscellaneous Expenses, property management fees and any other expenses incurred as a result of the violation of this provision by the Recipient, the Provider guarantees that is shall not ask the Recipient to bear and/or pay any other fees (including any taxes payable by the Provider) in connection with the building lease.
 - 2.3 For the use of any Third-party Property by the Recipient, the Parties shall share the fees actually paid to any third parties proportionally based on their respective use of the relevant property.
 - 2.4 For any building leases, the relevant rentals, Miscellaneous Expenses and property management fees shall be paid as follows:
 - 2.4.1 During the valid term of a lease agreement, the Recipient shall pay the rentals to the Provider on a quarterly basis. The rentals shall be paid within 5 days after the end of each quarter.
 - 2.4.2 During the valid term of a lease agreement, the Miscellaneous Expenses shall be paid on a monthly basis. Upon the receipt the voice of the Miscellaneous Expenses from the relevant property management company, the Provider shall submit the invoice to the Recipient within five days. The Recipient may pay the Miscellaneous Expenses directly to the property management company pursuant to the requirements of the property management company or make a payment to the Provider who will pay on its behalf. If the Provider is to make the payment on behalf of the Recipient, the Provider shall submit the relevant receipt to the Recipient for filing.
 - 2.4.3 During the valid term of a lease agreement, the property management fees for the leased buildings shall be paid on a monthly basis. The property management fees shall be paid by the Recipient at the end of each month pursuant to the requirements of the relevant property management company to the property management company through

the Provider or directly. If the Provider is to make the payment on behalf of the Recipient, the Provider shall submit the relevant receipt to the Recipient for filing.

- 2.5 For the use of any other property other than buildings, the Recipient shall pay the fees to the Provider within 15 days after the end of each month on a monthly basis.
- 2.6 For any overdue fees or rentals, the Recipient shall pay an overdue fine to the Provider at 0.05% of any outstanding amount for each day overdue.

3. Undertakings and warranties

The Provider guarantees that it has the right to provide the aforesaid Self-owned Property and Third-party Property (including sites, buildings and related ancillary facilities) for use by the Recipient. In the event that under any circumstances or for any reasons, there is any dispute on the Provider's ownership and/or use right of such property, that has prevent the Recipient from exercising its rights under this annex or has caused the Recipient to have incurred any other damages, the Provider agrees to indemnify the Recipient for all the losses incurred.

4. Matters that have not been dealt with in this annex shall be agreed on by the Provider and the Recipient through any other premises agreements.

Annex 5: International Telecommunications Network Gateways Services

1. Scope of the international telecommunications network gateways services

Party A owns and operates the international gateways in Guangzhou, Shanghai and Beijing (under construction).

If Party B requires the international gateways to provide any corresponding services (such as mobile phone international automatic roaming signaling transfer service) for operating the relevant businesses, Party A agrees to provide the relevant services in accordance with the requirements of Party B.

All revenue derived by Party B from operating businesses on the basis of the gateway services shall be vested in Party B.

Party A undertakes not to provide international gateway services to any other operators.

2. Service fee rates and payment

2.1 The service fees charged by Party A to Party B is calculated according to the following formula:

All the actual expenses incurred by Party A in the reasonable operation and maintenance of the international gateways (including depreciation expenses) $\times(1+10\%)$

2.2 Payment

Party B shall pay the relevant service fees to Party A within fifteen days after the end of each month on a monthly basis.

2.3 For any overdue amount of the service fees, Party B shall pay an overdue fine to Party A at 0.05% of any outstanding amount for each day overdue.

3. Quality assurance and failure recovery

Party A guarantees that the relevant equipment of its international gateways complies with the standards and regulations formulated by the relevant national authorities and it shall operate and maintain the international gateways in accordance with the technical standards formulated by the relevant national authorities from time to time.

Party B guarantees that its relevant communications equipment connected to the international gateways complies with the quality standards and technical requirements stipulated by the relevant national authorities.

If there is a reasonable ground for Party A to restructure its international gateways, Party A shall give an advance notice to Party B to make appropriate arrangements to ensure the normal operation of Party B as much as possible.

Party A shall have a department dedicated to handling any failure reports submitted by Party B on a ground-the-clock basis and make appropriate arrangements to handle any such failures. Upon identifying any failure or receiving the failure report from Party B, Party A shall immediately arrange for handling the failure and Party B shall send its personnel to offer assistance. Party A guarantees that it shall fix any such failures related to the international gateways within the recovery time frame stipulated in the relevant national maintenance procedures.

In the event that any businesses operated by Party B are affected due to any reasons related to the international gateways, Party A shall be responsible for the direct losses and reasonable indirect losses caused to Party B.

4. Party A agrees that it shall transfer its international gateways to Party B at the request of Party B when Party B is entitled to own any international gateways pursuant to the laws in the future.

Annex 6: Operator-Based Value-Added Services

1. Overview

Party A (or any subsidiaries controlled by it), acting as the provider, offers various value-added services, including but not limited to Unicom secretarial and artificial information services, to the subscribers of Party B through the artificial integrated platform.

2. Settlement

2.1 The actual cash revenue generated from the provision of the value-added services referred to in this annex as provided by Party A to Party B shall be settled by Party B and the respective branches of the provider at the proportion of 4:6. The settlement proportion shall not exceed the average level of the proportions used by Party B for any other similar value-added telecommunications services provided by any other CP/SPs independent of the provider in the same region.

2.2 Settlement shall be based on the billing information collected by Party B.

2.3 The Parties agree that the settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex on a monthly basis.

3. Obligations of the Parties concerned

3.1 In the event that the network construction (including but not limited to capacity expansion or renovation) carried out by either Party hereto, such Party shall inform the other Party six months in advance.

3.2 The Parties concerned shall carry out the maintenance of the network in accordance with the relevant regulations promulgated by the relevant national communications authorities from time to time so as to ensure the normal operation of the entire network.

3.3 The Parties hereto shall not suspend communications arising from the service businesses under this annex without the consent from the other Party. In case of any suspended communications or seriously impeded communications, the Parties shall take effective measures to restore communications.

Annex 7: Value-Added Telecommunications Services

1. Overview

Party A (or any subsidiaries controlled by it), acting as the provider, provides various value-added services to the subscribers of Party B through the telecommunications network and information platform.

2. Settlement

2.4 The actual cash revenue generated from the provision of the value-added services referred to in this annex as provided by Party A to Party B shall be settled by Party B and the respective branches of the provider according to the average level of the proportions used by Party B for any other similar value-added telecommunications services provided by any other CP/SPs independent of the provider in the same region.

2.5 Settlement shall be based on the billing information collected by Party B.

2.6 The Parties agree that the settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex on a monthly basis.

3. Obligations of the Parties concerned

3.4 In the event that the network construction (including but not limited to capacity expansion or renovation) carried out by either Party hereto, such Party shall inform the other Party six months in advance.

3.5 The Parties concerned shall carry out the maintenance of the network in accordance with the relevant regulations promulgated by the relevant national communications authorities from time to time so as to ensure the normal operation of the entire network.

3.6 The Parties hereto shall not suspend communications arising from the service businesses under this annex without the consent from the other Party. In case of any suspended communications or seriously impeded communications, the Parties shall take effective measures to restore communications.

Annex 8: “10010/10011” Customer Services

1. Services

Party A (or any subsidiaries controlled by it), acting as the provider, offers artificial customer services, such as service consultation, call fee inquiry, service acceptance, complaint handling (hereinafter referred to as “10010 Basic Services”), as well as customer callback and subscriber retention (hereinafter referred to as “10010 Value-added Services”) to Party B through its 10010/10011 services platform and charges a fee to Party B.

2. Fee standards

2.1 The standards of the service fees referred to in this annex: the costs for rendering the above customer services (“Customer Services Costs”) plus a profit margin of not more than 10%.

2.2 The above Customer Services Costs shall be determined by multiplying the cost per agent with the actual effective agents:

- (a) For economically developed major cities (such as Beijing, Shanghai and Guangdong), the cost per agent is the actual cost per agent (defined as follows) for the region in the previous year. For regions other than these economically developed major cities, the cost per agent is the actual cost per agent for the region in the previous year or the average actual cost per agent (defined as follows) for the whole country (excluding Beijing and Shanghai) with a premium of 10%, whichever is lower.

The actual cost per agent includes staff wages, management fees, operation and maintenance fees, equipment depreciation and site rentals related to 10010 Customer Services Business. The actual cost per agent for each region is determined by dividing the 10010/10011 customer services agent cost for the region incurred by the provider as recognized in the auditor’s report issued by an independent auditing institution in the previous year by the annual average monthly agents in the previous year. The auditor’s report and the relevant supporting documents shall be submitted to the auditors of Party B.

- (b) The determination of the actual effective agents: The provider shall provide the agent number of the previous year to Party B before the 10th day of each month. Party B shall confirm the effective agent number with reference to the service standards of customer service centers stipulated in Standards for Telecommunications Services (Trial) issued by the former Ministry of Information Industry within 5 working days. The effective agent number shall be based on the number finally confirmed by Party B.

2.3 The Parties agree that the settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex on a monthly basis.

3. Obligations of the Parties concerned

3.1 Party A shall, in accordance with Party B’s needs, properly increase the service agent number or service content, including but not limited to establishing designated agents for the purpose of offering 10010 value-added services pursuant to the written instruction of Party B. The cost per agent shall be confirmed in accordance with the reference to Item 2 (a) above.

3.2 Party B shall provide the information on any new businesses undertaken by Party B for its subscribers to the provider from time to time, and provide the information on various businesses undertaken by Party B for its subscribers to the provider from time to time in accordance with the needs of the provider.

- 3.3 The Parties hereto shall not suspend communications arising from the service businesses under this annex without the consent from the other Party. In case of any suspended communications or seriously impeded communications, the Parties shall take effective measures to restore communications.

Annex 9: Agency Services

1. Services

Party A (or any subsidiaries controlled by it), acting as the provider, launches product/service promotion and marketing activities in accordance with the market conditions and the needs and requirements of Party B.

2. Fee standards

The standards of the agency services provided by the provider shall not be lower than the service standards of any independent third party agents responsible for expanding subscriber base in the same region. The agency fees charged to Party B shall not be higher than the average agency fees charged by the independent third party agents responsible for expanding subscriber base in the same region.

3. Other settlement issues

3.1 Settlement shall be based on the billing information collected by Party B.

3.2 The Parties agree that the settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex on a monthly basis.

Annex 10: Engineering Design and Technical Services

1. Services

Party A (or any subsidiaries controlled by it), acting as the provider, provides engineering and technical services to Party B (the “Recipient”) in accordance with the needs and requirements of Party B.

2. Method for determining the provider

The Parties agree that the Recipient shall determine the provider for engineering and technical services through tender invitation. The provider shall have the qualifications and conditions not inferior to that of any independent third parties, and shall participate in the tender invitation procedure equally with any independent third parties.

3. Service standards

The service standards for providing the above services to the Recipient by the provider shall not be lower than the service standards for providing similar services to the Recipient by any other independent third parties.

4. Fee standards

4.1 The fee standards for the engineering services shall be determined with the reference to and shall not be higher than the Fee Standards for Survey and Engineering promulgated by the former State Planning Commission and the Ministry of Construction in 2002 and other relevant national standards, and shall not be higher than the fee standards adopted by any other independent third parties providing similar services in the industry.

4.2 The fee standards for technical services shall be determined with the reference to and shall not be higher than that stipulated in the Circular of the State Planning Commission on Printing and Distributing the Interim Provisions on Construction Project Preliminary Work Consultation Fees promulgated by the former State Planning Commission in 1999 and other relevant national standards, and shall not be higher than the fee standards adopted by any other independent third parties providing similar services in the industry.

5. Other settlement issues

The Parties agree that the settlement shall be made directly by their respective subordinate entities in accordance with the settlement principles stipulated in this annex and the payment shall be made according to the progress of the actual contract performance.

**TRANSFER AGREEMENT
IN CONNECTION WITH THE COMPREHENSIVE SERVICES AGREEMENT**

between

China United Telecommunications Corporation Limited

and

China Unicom Corporation Limited

and

China Netcom Group Corporation Limited

August 12, 2008

This Transfer Agreement in connection with the Comprehensive Services Agreement (hereinafter referred to as this "Transfer Agreement") is entered into on October 26, 2006 in Beijing, the People's Republic of China (hereinafter referred to as the "PRC") by and among the following parties:

(1) Transferor:

China United Telecommunications Corporation Limited (hereinafter referred to as "Unicom A Share Company")

Address: 29/F, No.1033, Changning Road, Shanghai

Legal Representative: Chang Xiaobing

(2) Transferee:

China Unicom Corporation Limited (hereinafter referred to as "Unicom Operating Company")

Address: Level 12, Tower A, Henderson Center, No. 18 Jian Guo Men Nei Avenue, Beijing

Legal Representative: Chang Xiaobing

China Netcom (Group) Corporation Limited (hereinafter referred to as "Netcom Operating Company")

Address: Tower C, No. 156, Fu Xing Men Nei Street, Xicheng District, Beijing

Legal Representative: Zuo Xunsheng

WHEREAS:

- (1) China United Telecommunications Corporation (hereinafter referred to as "Unicom Group") is a limited liability company duly incorporated and validly existing under the laws of PRC and engages in the operation of comprehensive telecommunications business. Unicom A Share Company is a joint stock limited company duly incorporated and validly existing under the laws of PRC and its shares have been listed and traded on the Shanghai Stock Exchange (hereinafter referred to as the "SSE") since October 9, 2002. Unicom Group is the controlling shareholder of Unicom A Share Company;
- (2) Unicom A Share Company indirectly controls China Unicom Limited (hereinafter referred to as "Unicom Red Chip") through China Unicom (BVI) Limited (hereinafter referred to as "Unicom

BVI”). Unicom Red Chip is a limited liability company duly incorporated and validly existing under the laws of the Hong Kong Special Administrative Region (hereinafter referred to as “Hong Kong”) and its shares are listed and traded in Hong Kong and the U.S. respectively;

- (3) Unicom Operating Company is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, whose equity is 100% held by Unicom Red Chip. Unicom Operating Company is mainly engaged in nationwide provision of international and domestic long-distance communications services (excluding international telecommunications facilities services); Internet services and IP Telephony services; as well as mobile communications services in 31 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Hubei, Anhui, Sichuan, Guizhou, Xinjiang, Chongqing, Shaanxi, Guangxi, Henan, Heilongjiang, Jilin, Jiangxi, Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Ningxia, Gansu, Qinghai and Tibet;
- (4) Netcom Operating Company is a foreign funded enterprise duly incorporated and validly existing under the laws of PRC, and is wholly owned by China Netcom Group (Hong Kong) Limited (a company duly incorporated and validly existing under the laws of Hong Kong with its shares listed on the Stock Exchange of Hong Kong Limited and New York Stock Exchange, hereinafter referred to as “Netcom Red Chip”). Netcom Operating Company mainly engages in the operation of related telecommunications business in 10 provinces, autonomous regions and municipalities, including Beijing, Tianjin, Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, Inner Mongolia and Shanxi;
- (5) On August 22, 2002, Unicom Group and Unicom A Share Company signed a Memorandum in respect to transactions between Unicom Group or its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by Unicom A Share Company) and Unicom Red Chip indirectly controlled by Unicom A Share Company and its subsidiaries after the listing of the shares of Unicom A Share Company (hereinafter referred to as “Memorandum on Connected Transactions”). According to the understanding reached under the Memorandum on Connected Transactions, if based on the Rules Governing the Listing of Shares on Shanghai Stock Exchange (hereinafter referred to as the “SSE Listing Rules”) applicable from time to time, transactions between Unicom Red Chip Company or its subsidiaries and Unicom Group or its subsidiaries (excluding Unicom A Share Company and its subsidiaries) are subject to the approval of minority shareholders of Unicom A Share Company, and at the same time, based on the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the “HKSE Listing Rules”) applicable from time to time, they are deemed to be connected transactions that are subject to the approval of the minority shareholders of Unicom Red Chip, such connected transactions shall be conducted in two steps. First step: an agreement shall be entered into between Unicom Group or its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by it) and Unicom A Share Company or Unicom BVI in respect of any proposed transaction to specify the rights and obligations of the parties under the agreement (including but not limited to Unicom Group agreeing to the transfer of rights and obligations of Unicom A Share Company or Unicom BVI under agreement to Unicom Red Chip or its subsidiaries); Second step: the transfer of the rights and obligations under the above-mentioned agreement by Unicom A Share Company or Unicom BVI to Unicom Red Chip or its subsidiaries;
- (6) On May 24, 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance jointly issued the “Notice on Deepening the Reform of China’s Telecommunications System”, which is seen as the guidepost for the Chinese government to deepen the reform of its telecommunications system by endorsing the formation of three leading competitive carriers with nationwide network resources, similar size and strength and the capacity of full services operation. In the above notice, China Telecom is encouraged to buy China Unicom’s CDMA network and China Unicom is encouraged to merge with China Netcom. As a response to the call for deepening the reform in regard to telecommunications restructuring, the Unicom Red Chip is to merge with Netcom Red Chip via an agreement (the “Merger Transaction”). Following the merger, the Netcom Red-chip Company will withdraw from the Hong Kong Stock Exchange and the New York Stock Exchange to become a wholly owned subsidiary of the Unicom Red Chip;

- (7) For the purpose of the operation of telecommunications business by Unicom Red Chip and its subsidiaries, pursuant to the relevant provisions under the SSE Listing Rules, HKES Listings Rules and Memorandum on Connected Transactions, Unicom Group and its subsidiaries (excluding Unicom A Share Company and subsidiaries controlled by it), through Unicom A Share Company, entered into the Comprehensive Services Agreement, the Comprehensive Services Agreement based on the Artificial Platform and the Building Lease Agreement (hereinafter referred to as the “Original Comprehensive Services Agreement”) with Unicom Operating Company in 2006 and pursuant to the above agreements, arrangements have been made for a series of continuing connected transactions (hereinafter referred to as “Continuing Connected Transaction Arrangements”), which have been announced in accordance with the respective listing rules applicable to Unicom A Share Company and Unicom Red Chip and approved by their respective independent shareholders. The above Continuing Connected Transaction Arrangements have a term of 3 years, commencing on January 1, 2007 and ending on December 31, 2009.
- (8) On October 26, 2006, Unicom Group and Unicom A Share Company entered into the Comprehensive Services Agreement.

Based on the actual implementation and amendments made since the Original Comprehensive Services Agreement came into effect, after the joint review and discussion and on the basis of equality and mutual benefit, the parties hereby agree on the following:

1. Subject to the fulfillment of the conditions specified in Article 6 of this Transfer Agreement, the Transferor hereby agrees to transfer all its rights and obligations under the Comprehensive Services Agreement and its annexes to the Transferee, and the Transferee hereby agrees to accept the transfer of the rights and obligations of the Transferor under the Comprehensive Services Agreement.
2. Once the Transferor has transferred its rights and obligations under the Comprehensive Services Agreement to the Transferee, the Transferee shall immediately assume all the rights and obligations of the Transferor under the Comprehensive Services Agreement. The Transferor shall immediately terminate such rights and obligations under the Comprehensive Services Agreement that have been assumed by the Transferee.
3. The Transferor hereby confirms that pursuant to Article 6 of the Comprehensive Services Agreement, Unicom Group has irrevocably agreed that the Transferor may transfer its rights and obligations under the Comprehensive Services Agreement to the Transferee, and the transfer of the Transferor’s rights and obligations under the Comprehensive Services Agreement to the Transferee is not subject to any further consent from Unicom Group.
4. Each of the parties hereto warrants that it has the rights, powers and authority to enter into and perform this Transfer Agreement. Upon execution, this Transfer Agreement shall constitute legal, valid and binding obligations of the parties.
5. The Transferee agrees to retain and perform the past and future rights and obligations of the Transferor under the Comprehensive Services Agreement in accordance with the terms and conditions specified in the Comprehensive Services Agreement within the effective term of the Comprehensive Services Agreement.
6. Effectiveness

Subject to the fulfillment of the following conditions, this Transfer Agreement shall become effective simultaneously with the Comprehensive Services Agreement:

- 6.1 The shareholders’ general meeting of Unicom Red Chip approves the transfer by the Transferor of its rights and obligations under the Comprehensive Services Agreement to the Transferee pursuant to the applicable laws, regulations and listing rules;

6.2 The shareholders' general meeting of the Transferor approves the execution and performance of the Comprehensive Services Agreement pursuant to the applicable laws, regulations and listing rules;

6.3 The Merger Transaction is executed and completed.

7. Force Majeure

If any party is unable to perform the relevant obligations under this Transfer Agreement in accordance with the applicable provisions as a result of any force majeure events, the occurrence and consequence of which is unforeseeable or unavoidable and cannot be overcome, such party shall immediately inform the other party of the situation and within fifteen (15) days of such occurrence, provide the relevant details and valid supporting documents for the failure or partial failure in performing or the reasons for the postponement of the performance of the relevant obligations under this Transfer Agreement and the related annexes. The parties shall negotiate with each other and decide whether to terminate, partly waive or postpone the performance of such obligations according to the extent of impact of the force majeure events on the performance of the obligations.

8. Confidentiality

Save as otherwise required by the laws or relevant regulatory authorities, or for the purpose of any disclosures to be made by the Transferor to the SSE, or Unicom Red Chip to the HKSE, neither party shall be entitled to provide or disclose any data or information relating to the operation of the other party to any companies, enterprises, organizations or individuals without the permission in writing from the other party.

9. Non-Waiver

Unless otherwise required by the laws, no failure or delay by either party in exercising any of its rights, powers or privileges shall be deemed to be a waiver of such rights, powers or privileges, and any partial exercise of the rights, powers or privileges shall not prejudice the future exercise of such rights, powers or privileges.

10. Notification

Any notice relating to this Transfer Agreement shall be made in writing and delivered by one party hereto to the other party by hand, by way of facsimile or by mail. If such notice is delivered by hand, it shall be deemed to have been served upon delivery. If it is sent by facsimile, it shall be deemed to have been serviced when the fax machine indicates the fax has been sent. If such notice is sent by mail, it shall be deemed to have been served on the third working day (extended in the event of any statutory holidays) after dispatch of the mail. Any notice shall take effect once served.

11. Applicable Laws

This Framework Agreement is governed by PRC laws and shall be interpreted and implemented in accordance with PRC laws.

12. Disputes Settlement

All disputes resulting from the execution of this Transfer Agreement or relating to this Transfer Agreement shall be settled by the parties through friendly negotiations. If an agreement for the settlement of the dispute cannot be reached within thirty (30) days upon the request by one party for settling the dispute through negotiation, either party shall be entitled to refer the dispute to China International Economic and Trade Arbitration Commission to be solved through arbitration in Beijing by three (3) arbitrators pursuant to the then effective arbitration rules. The language for arbitration shall be Chinese. The arbitration decision shall be final and binding on both parties. Unless otherwise required by the arbitration tribunal, the arbitration fees shall be born by the losing party.

13. Miscellaneous

- 13.1 Upon reaching agreements through negotiation, the parties may amend or supplement this Transfer Agreement and any such amendments or supplements shall take effect after executed in writing by the legal or authorized representatives of the parties and sealed with their common seals.
- 13.2 This Transfer Agreement is severable, that is, if any articles under this Transfer Agreement is confirmed to be in violation of the laws or unenforceable, this shall not affect the validity and enforceability of any other articles of this Transfer Agreement.
- 13.3 This Transfer Agreement is signed in six copies with each party holding two copies. All copies shall have equal legal force.

Page for signatures:

China United Telecommunications Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

China Unicom Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

China Netcom (Group) Corporation Limited (seal)

Legal representative or his authorized representative: (signature)

Agreement
On

Absorption and Merger of China Netcom (Group) Co., Limited by China United Telecommunications Corporation Limited

Between
China United Telecommunications Corporation Limited,
China Netcom (Group) Co., Limited,
China Unicom (Hong Kong) Limited and
China Netcom Group Corporation (Hong Kong) Limited

October 15, 2008

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This Agreement on Absorption and Merger of China Netcom (Group) Co., Limited by China United Telecommunications Corporation Limited (hereinafter referred to “Merger Agreement” or “this Agreement”) is entered by the following parties in Beijing, the People’s Republic of China:

1. China United Telecommunications Corporation Limited (hereinafter referred to “Unicom Operating Company” or “the Merging Party”)

Legal location: Floor 12, Building 1, Henderson Center, 18 Jianguomennei Street, Beijing

Legal representative: Chang Xiaobing

2. China Netcom (Group) Co., Limited (hereinafter referred to “Netcom Operating Company” or “the Combined Party”)

Legal location: Building C, 156 Fuxingmennei Street, Xicheng District, Beijing

Legal representative: Zuo Xunsheng

3. China Unicom (Hong Kong) Limited (hereinafter referred to “New Unicom Red-chip Company”)

Legal location: 75th Floor, The Center, 99 Queen’s Road Central, Hong Kong

Legal representative: Chang Xiaobing

4. China Netcom Group Corporation (Hong Kong) Limited (hereinafter referred to “Netcom Red-chip Company”)

Legal location: Room 6701, The Center, 99 Queen’s Road Central, Hong Kong

Legal representative: Zuo Xunsheng

Whereas

- (1) On May 24, 2008, the Ministry of Industry and Information Technology (MIIT), the National Development and Reform Commission (NDRC) and the Ministry of Finance jointly issued the “Announcement on Deepening the Reform of the Structure of the Telecommunications Sector”. Pursuant to such Announcement, the Chinese Government will continue to deepen the reform of the structure of the telecommunications sector, 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. As a part of the restructuring in the telecommunication sector, China Unicom Limited (hereinafter referred to “Unicom Red-chip Company”) and Netcom Red-chip Company merged (hereinafter referred to “Red-chip Company Merger”) by way of agreement arrangement. After the completion of the Red-chip Company Merger, China Unicom Limited is changed to China Unicom (Hong Kong) Limited (namely “New Unicom Red-chip Company”). The Red-chip Company Merger took effect on October 15, 2008.
- (2) After the Red-chip Company Merger took effect, New Unicom Red-chip Company holds 100% of the equity interest of Netcom Red-chip Company, which holds 100% of

the equity interest of Netcom Operating Company, and New Unicom Red-chip Company holds 100% of the equity interest of Unicom Operating Company;

- (3) Unicom Operating Company is a foreign invested enterprise incorporated under the PRC law and legally continuing its operations. Its business scope is as follows: operating fixed-line local telephone service (including local wireless loop), public telegraphy and user telegraphy service, domestic communications facilities service in 10 provinces, cities and autonomous regions including Beijing, Tianjin, Liaoning, Hebei, Shandong, Henan, Shanxi, Jilin, Inner Mongolia and Heilongjiang; operating nationwide fixed-line domestic long distance telephone service, fixed-line international long distance telephone service, IP telephone service (limited to Phone-Phone service), 900/1800MHz GSM 2G digital cellular mobile communications service, Internet data transmission service, international data communications service, and 26GHz wireless access service; and operating 3.5GHz wireless access service in Beijing, Shanghai, Tianji, Hebei (excluding Shijiazhuang), Shanxi, Inner Mongolia, Liaoning, Jilin, Harbin, Hefei, Nanchang, Shandong (excluding Jinan and Qingdao), Zhengzhou, Hunan, Guangdong, Guangxi, Haikou, Sichuan, Guizhou, Yunnan (excluding Kunming), Shaanxi, Xining, Ningxia and Xinjiang. It operates domestic Very Small Aperture Terminal (VSAT) communications service, fixed-line domestic data transmission service, Customer Premises Network (CPN) service, network hosting service, online data processing and transaction processing service, domestic Internet virtual private network (VPN) service, Internet data center service, voice mailbox service, facsimile store and forward service, Internet access service and information service across the country. It operates wireless data transmission service, X.400 e-mail service and electronic notice service in Internet information service in 10 provinces, cities and autonomous regions including Beijing, Tianjin, Liaoning, Hebei, Shandong, Henan, Shanxi, Jilin, Inner Mongolia and Heilongjiang. It operates communications and information service related system integration, equipment manufacturing and sales, design and engineering service, technical development, technical service, technical consulting, technical training; sales and maintenance of pagers and handset accessories; preparation and sales of telecommunications cards; customer service; property leasing; and editing, publishing and distributing telephone directories. (As for those services related with license or special regulations of the country, they must be operated with license or relevant formalities have to be handled according to such special regulations).
- (4) Netcom Operating Company is a foreign invested enterprise incorporated under the PRC law and legally continuing its operations. Its business scope is as follows: As authorized by China Netcom (Group) Co., Limited, it operates domestic fixed-line telecommunications network and facilities (including wireless local loop) service, fixed-line telecommunications network based voice, data, image, multimedia communications and information service; external settlement in international telecommunications service and exploration in the international communications market in 10 provinces, cities and autonomous regions including Beijing, Tianjin, Hebei, Henan, Liaoning, Shandong, Shanxi, Inner Mongolia, Jilin and Heilongjiang. It operates communications and information service related system integration,

technical development, technical service, information consulting, equipment manufacturing and sales, design and engineering service; property leasing; design, preparation, release and agency service of various domestic and foreign advertisements; and editing, publishing and distributing telephone directories.

- (5) In order to integrate the telecommunications services of New Unicom Red-chip Company in the territory of China, Unicom Operating Company will merge with Netcom Operating Company by means of absorption and merger. After such merger, Unicom Operating Company will continue its operations, Netcom Operating Company will be dissolved and its legal status will be cancelled.

In order to define related rights and obligations of various parties in the merger, an agreement has been reached as follows:

1. FORM OF MERGER

- 1.1 According to terms and conditions of this Agreement, Unicom Operating Company and Netcom Operating Company agree to conduct this merger by means of absorption and merger, namely Unicom Operating Company will merge with and absorb Netcom Operating Company. After completion of this merger, as the absorbing party and continuing party of this merger, Unicom Operating Company should handle relevant modification registration formalities; as the absorbed party and discontinuing party of this merger, all the assets, liabilities, rights, businesses and employees and so on of Netcom Operating Company will enter Unicom Operating Company meanwhile Unicom Operating Company will handle cancellation registration formalities of Netcom Operating Company;
- 1.2 As a wholly-owned subsidiary of New Unicom Red-chip Company, Netcom Red-chip Company agrees to transfer all its rights in Unicom Operating Company after this merger to New Unicom Red-chip Company or vest them in New Unicom Red-chip Company without obligation. Namely after completion of this merger, New Unicom Red-chip Company will hold all equity interests of Unicom Operating Company after this merger, and Unicom Operating Company will become a wholly-owned subsidiary of New Unicom Red-chip Company.

2. MERGER REFERENCE DATE AND EFFECTIVE DATE OF MERGER

- 2.1 The merger reference date for this merger is December 31, 2008, all the parties agree to handle property transfer formalities and handover of this merger on the basis of the audited financial statements on the same day of the merger reference date.
- 2.2 On the merger reference date and prior to such date, all businesses, assets and all their resulting gains and losses of Unicom Operating Company and Netcom Operating Company will be shared and undertaken respectively by them. Following the merger reference date, all businesses, assets and all their resulting gains and losses of Unicom Operating Company and Netcom Operating Company will be shared and undertaken by Unicom Operating Company according to law.
- 2.3 All the parties under this Agreement hereby confirm that the effective date of the merger is January 1, 2009 subject to satisfaction of all prerequisites specified in Article

11 of this Agreement.

3. PROFILE OF UNICOM OPERATING COMPANY AFTER COMPLETION OF MERGER

Company Name	China United Telecommunications Corporation Limited
Operating Duration	From April 21, 2000 to April 20, 2050
Legal Representative	Chang Xiaobing
Registered Address	Floor 12, Building 1, Henderson Center, 18 Jianguomennei Street, Beijing
Registration Number	100000400008460
Total Amount of Investment	RMB 285,422,055,252 yuan
Registered Capital	RMB 138,091,677,827.69 yuan
Scope of Business	It operates fixed-line local telephone service (including local wireless loop), public telegraphy and user telegraphy service, domestic communications facilities service in 10 provinces, cities and autonomous regions including Beijing, Tianjin, Liaoning, Hebei, Shandong, Henan, Shanxi, Jilin, Inner Mongolia and Heilongjiang; operating nationwide fixed-line domestic long distance telephone service, fixed-line international long distance telephone service, IP telephone service (limited to Phone-Phone service), 900/1800MHz GSM 2G digital cellular mobile communications service, Internet data transmission service, international data communications service, and 26GHz wireless access service; and operating 3.5GHz wireless access service in Beijing, Shanghai, Tianji, Hebei (excluding Shijiazhuang), Shanxi, Inner Mongolia, Liaoning, Jilin, Harbin, Hefei, Nanchang, Shandong (excluding Jinan and Qingdao), Zhengzhou, Hunan, Guangdong, Guangxi, Haikou, Sichuan, Guizhou, Yunnan (excluding Kunming), Shaanxi, Xining, Ningxia and Xinjiang. It operates domestic Very Small Aperture Terminal (VSAT) communications service, fixed-line domestic data transmission service, Customer Premises Network (CPN) service, network hosting service, online data processing and transaction processing service, domestic Internet virtual private network (VPN) service, Internet data center service, voice mailbox service, facsimile store and forward service, Internet access service and information service across the country. It operates wireless data transmission service, X.400 e-mail service and electronic notice service in Internet information service in 10 provinces, cities and autonomous regions including Beijing, Tianjin, Liaoning, Hebei, Shandong, Henan, Shanxi, Jilin, Inner Mongolia and Heilongjiang. It operates communications and information service related system integration, equipment manufacturing and sales, design

and engineering service, technical development, technical service, technical consulting, technical training; sales and maintenance of pagers and handset accessories; preparation and sales of telecommunications cards; customer service; property leasing; and editing, publishing and distributing telephone directories. (As for those services related with license or special regulations of the country, they must be operated with license or relevant formalities have to be handled according to such special regulations).

4. MERGER OF ASSETS

4.1 All assets, including but not limited to fixed assets, current assets and so on owned by, possessed by or used by Netcom Operating Company will be completely given to Unicom Operating Company.

4.2 Fixed assets

(1) By fixed assets, they refer to those fixed assets owned by, possessed by or used by Netcom Operating Company prior to the effective date of the merger, including but not limited to telecommunications equipment, facilities, transportation equipment, office equipment, properties, the right to use land, buildings and on-going constructions and so on. All such fixed assets will be given to Unicom Operating Company.

(2) Specific items in the fixed assets of Netcom Operating Company are subject to the fixed asset items confirmed by all parties under this Agreement. Netcom Operating Company shall handover all existing documents such as relevant ownership documents, descriptions, certificates and registrations to Unicom Operating Company. Of which, ownership modification registration formalities of vehicles, property ownership, the right to use land and industrial ownership in the above fixed assets shall be completed within 180 days of the effective date of the merger, all the other assets shall be transferred to Unicom Operating Company on the effective date of the merger.

4.3 Current assets

(1) Current assets of Netcom Operating Company mainly include monetary funds, short-term investment, receivables and prepaid money and so on shall be given to Unicom Operating Company.

(2) Specific items in the current assets of Netcom Operating Company are subject to those current asset items confirmed in the audit report.

4.4 External equity interest investments

Equity interest rights as a result of external investments of Netcom Operating Company shall be given to Unicom Operating Company, including but not limited to 100% of the equity interest of China Netcom Group System Integration Limited Corporation held by Netcom Operating Company, 100% of the equity interest of China Netcom Broadband Online Company and 100% of the equity interest of Zhongrong Information Service Limited.

5. SCHEME FOR SUCCESSION OF CREDITOR'S RIGHTS AND LIABILITIES

- 5.1 After respectively obtaining the approval of Ministry of Commerce in principle on this merger scheme by Unicom Operating Company and Netcom Operating Company, they shall implement the announcement and notice procedure of creditor according to provisions of relevant laws and regulations, liquidate debts or provide guarantee in advance in accordance with the requirements of their respective creditors raised within the statutory period (of which, as for those corresponding rights of holders of enterprise coupons and short term fund-raising coupons issued by Netcom Operating Company that are still within continuing operations period, they will be executed according to relevant laws, regulations and procedures specified in prospectus).
- 5.2 Creditor's rights and liabilities of Unicom Operating Company and Netcom Operating Company will be undertaken by the continuing party after the absorption and merger following the effective date of the merger namely Unicom Operating Company.
- 5.3 Creditor's rights and liabilities of subsidiaries of Unicom Operating Company and Netcom Operating Company will still be undertaken by their respective subsidiaries.

6. INSTITUTIONAL MERGER

- 6.1 After the effective date of the merger, all functional departments and their branch institutions of Netcom Operating Company will be merged with corresponding functional departments of Unicom Operating Company.
- 6.2 Various parties in this merger hereby agree that Netcom Operating Company following this merger shall make adjustments according to the actual condition of its business development.

7. ALLOCATION OF EMPLOYEES

Following the completion of this merger, various parties agree that all registered employees of Unicom Operating Company and Netcom Operating Company will be completely received by Unicom Operating Company. Any and all rights and obligations of Unicom Operating Company and Netcom Operating Company as employers of their existing employees will be completely shared and undertaken by Unicom Operating Company from the effective date of the merger.

8. AGREEMENT AND THE UNDERTAKING OF AGREEMENT

- 8.1 Agreement in which Netcom Operating Company acts as one party before the effective date of this Agreement will be undertaken by Unicom Operating Company from the effective date of this Agreement.
- 8.2 Within 30 days from Unicom Operating Company receives the modified operating license, Unicom Operating Company shall issue a notice of changing agreement mainbody to all the other parties in an agreement entered by Netcom Operating Company in accordance with the requirements of relevant laws and regulations and implement corresponding notice procedure.
- 8.3 During the period from the signature date of this Agreement to the effective date of the

merger, rights and obligations under relevant contracts signed in the name of Unicom Operating Company but actually implemented by Netcom Operating Company will be shared and undertaken by Netcom Operating Company.

9. SUCCESSION OF LITIGATION

- 9.1 Prior to the effective of this Agreement, all litigations or arbitrations related with Netcom Operating Company that are pending or decided but not implemented will be undertaken by Unicom Operating Company.
- 9.2 Litigations, claims, losses, compensations, payments, expenses and costs related with assets, rights, liabilities or obligations of Netcom Operating Company that are vested in according to this Agreement occurred after the effective date of this Agreement shall be the responsibility of Unicom Operating Company and undertaken by Unicom Operating Company.

10. TAXES AND EXPENSES

Unicom Operating Company hereby commits and guarantees to undertake the following:

- 10.1 Taxes and expenses payable irrespective of the effective date of this Agreement that are related to transferred businesses and assets of Unicom Operating Company.
- 10.2 Taxes and expenses related to operating actives and properties undertaken by Unicom Operating Company after the effective date of this Agreement.

11. PREREQUISITE FOR MERGER TO TAKE EFFECT

This merger is subject to satisfaction of the following prerequisite:

- 11.1 New Unicom Red-chip Company and Netcom Red-chip Company have made decision on this merger in accordance with applicable laws, regulations and rules;
- 11.2 Unicom Operating Company and Netcom Operating Company have executed internal approval procedures in accordance with applicable laws, regulations and rules;
- 11.3 All parties under this Agreement have implemented the required necessary procedure of applicable laws and/or binding agreements and documents, including but not limited to the consent of relevant creditors (if applicable);
- 11.4 Approval of related issues about this merger by Ministry of Commerce and other related governmental departments.

12. REPRESENTATIONS AND WARRANTIES

Any party under this Agreement hereby makes the following representations and warranties to the other parties:

12.1 Legal status

Our company is a company incorporated under laws of jurisdiction and effectively continuing our operations, having independent legal status, being capable of making a lawsuit or being sued in our own name, owning our assets and specializing in our

businesses existing or proposed to exist, implementing our obligations.

12.2 Power and authorization

Our company and our authorized person have power and are authorized to sign and deliver our participating agreement, implement their obligations under such agreement, all corporate actions and other actions necessary for authorizing their signing participating agreement and implementing their obligations under such agreement have been officially handled.

12.3 No conflict

In accordance with specifications of participating agreements signed and delivered, our company executes our rights, implements or abides by obligations, which are or will not in contradiction with, against or beyond any rights or restrictions allowed or specified by the following documents:

- (1) Any other agreements in which we participate or that have binding force to our assets;
- (2) Our organizational documents; or
- (3) Any applicable laws and approvals that have binding force to us.

12.4 References

We provide relevant documents and materials in accordance with the requirements of the merger and guarantee authenticity and integrity of such references.

13. APPLICABLE LAWS AND RESOLUTION OF DISPUTES

13.1 This Agreement shall be governed by, and interpreted in accordance with PRC laws.

13.2 All parties hereto shall resolve any disputes, conflicts or claims (“Dispute”) arising out of or in connection with the interpretation or implementation of this Agreement through friendly consultation. If the parties can not come to an agreement on the resolution to a Dispute within 60 days after one party raises the Dispute, then such Dispute shall be referred to arbitration.

13.3 The Dispute shall be resolved by arbitration in China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with the CIETAC Arbitration Rules then in effect.

13.4 The arbitration will be presided over by the CIETAC as the presiding body. The arbitration will be in Chinese, unless agreed otherwise, and will be in Beijing.

13.5 The arbitral award given in compliance with the arbitration procedures will be final and binding on all the parties and will be enforceable.

14. NOTICE

14.1 Any notice to be given under this Agreement shall be in writing. It shall be served by sending it by telex, telegraphy or facsimile to the following address(es) under this Agreement or relevant address(es) specified by one party to any other party from time to time:

China United Telecommunications Corporation Limited
Address: A133, Xidan North Street, Xicheng District, Beijing

Telephone: 010 66505783
To the attention of: Jia Yongzeng

China Netcom (Group) Co., Limited
Address: Building C, 156 Fuxingmennei Street, Xicheng District, Beijing
Telephone: 010 66259602
To the attention of: Wang Yueping

China Unicom (Hong Kong) Limited
Address: 75th Floor, The Center, 99 Queen's Road Central, Hong Kong
Telephone: 852 2121 3220
To the attention of: Corporate Secretary

China Netcom Group Corporation (Hong Kong) Limited
Address: 67th Floor, The Center, 99 Queen's Road Central, Hong Kong
Telephone: 852 2626 8862
To the attention of: Corporate Secretary

14.2 In the case of notice delivery by hand, it shall be deemed to have been duly given when delivered; In the case of post, the date of acknowledgement; in the case of telegraphy, when the transmission receipt is collected; in the case of facsimile, upon confirmation of transmission.

15. INTEGRAL AGREEMENT

All parties hereto have reached full agreement and understanding concerning this merger. This Agreement replaces all the previous agreements and understanding reached on subject issues of this Agreement, such previous agreements and understanding shall no longer have any effects; at the signature of this Agreement, neither party relies on any representations, guarantees or commitments specified or mentioned other than in this Agreement.

16. SEVERABILITY

If any provision under this Agreement is held to be invalid or unenforceable, then such provision shall be given no effect, and should be deemed as not included in this Agreement, but the rest of this Agreement shall still be valid. The parties shall then use all reasonable efforts to replace the invalid or unenforceable provision by a valid and enforceable substitute provision the effect of which shall be as close as possible to the intended effect of the invalid or unenforceable provision.

17. AMENDMENT

Any amendment to this Agreement (or any documents mentioned in this Agreement) shall only be made in writing, and become effective if signed by every party or their authorized

representative under this Agreement. Amendment refers to modifications, supplements, deletions or changes in any form.

18. COPY OF AGREEMENT

This Agreement has 10 original copies with the same legal effect.

19. FORCE MAJEURE

- 19.1 Force majeure refers to events that can not be predicted by the affected party, beyond its control and prevent it from performing its obligations, which include but not limited to earthquakes, typhoons, explosions, serious fire disasters or other natural calamities, strikes, changes in law and policy, or any other events that lead to severe consequences or conflict situations such as wars.
- 19.2 The occurrence of force majeure: If one party under this Agreement cannot fully or partially perform its obligations due to force majeure, then such party will not be held responsible for being unable to perform its obligations during the period of force majeure or direct consequences as a result of force majeure. The parties hereto shall make efforts to minimize consequences as a result of force majeure.
- 19.3 Notice of force majeure: The affected party shall, upon the occurrence of force majeure, promptly give the other parties a notice of specific information of force majeure and the effects on the performance of its obligations under this Agreement; when such force majeure terminates, the affected party shall promptly give the other parties a notice of the termination.

20. SUCCESSION AND TRANSFER OF RESPONSIBILITIES AND RIGHTS UNDER THE AGREEMENT

This Agreement shall have integral legal binding force to any party and its lawful successor and assignee. Without the consent of the other party, any party under this Agreement shall not impawn or transfer any rights, interests, obligations and responsibilities of such other party under this Agreement in any form.

21. DEFAULT AND REMEDIES

If any party under this Agreement violates its obligations and other statutory responsibilities hereof, it should undertake corresponding compensation responsibility.

22. TITLES AND HEADINGS

All titles and headings of this Agreement are inserted for convenience only and shall not have any effect on the construction of this Agreement.

(There is no text below.)

(There is no text in this page, which is used for the signature of Agreement on Absorption and Merger of China Netcom (Group) Co., Limited by China United Telecommunications Corporation Limited)

China United Telecommunications Corporation Limited (seal)

Legal Representative (signature): Chang Xiaobing

China Netcom (Group) Co., Limited (seal)

Legal Representative (signature): Zuo Xunsheng

China Unicom (Hong Kong) Limited (seal)

Legal Representative (signature): Chang Xiaobing

China Netcom Group Corporation (Hong Kong) Limited (seal)

Legal Representative (signature): Zuo Xunsheng

CHINA UNICOM (HONG KONG) LIMITED
(中国联合网络通信(香港)股份有限公司)

(formerly known as
 “CHINA UNICOM LIMITED 中国联通股份有限公司”)
 (a company incorporated in Hong Kong with limited liability)

PRE-GLOBAL OFFERING SHARE OPTION SCHEME

1. DEFINITIONS

1.1 In the Scheme the following expressions have the following meanings:

<i>associate</i>	has the meaning ascribed to it in the Listing Rules
<i>Auditors</i>	means the auditors for the time being of the Company;
<i>Board</i>	means the board of directors from time to time of the Company or a duly authorised committee thereof;
<i>Board Lot</i>	means the board lot in which Shares are traded on the Stock Exchange from time to time;
<i>Companies Ordinance</i>	means the Hong Kong Companies Ordinance (Chapter 32 of the laws of Hong Kong (as amended from time to time));
<i>Company</i>	means China Unicom (Hong Kong) Limited (中国联合网络通信(香港)股份有限公司) (formerly known as “China Unicom Limited 中国联通股份有限公司”), a company incorporated in Hong Kong with limited liability;
<i>Effective Date</i>	means the date on which the Scheme becomes unconditional;
<i>Effective Options</i>	Options granted pursuant to the Scheme and vested in the Grantee according to the relevant Vesting Schedule;
<i>Employee</i>	means any employee of the Company or any Subsidiary including (without limitation) any executive director in the employment of the Company or any Subsidiary;
<i>financial year</i>	means a year or other period for which the Company’s consolidated accounts are made up;
<i>Grantee</i>	means any Employee who accepts the offer of the grant of any Option in accordance with the terms of the Scheme or (where the context so permits) a person who is entitled to

exercise any such Option in consequence of the death of the original Grantee or, if necessary, in the case of Incapacity, the Employee's legal successors, lawful attorney or legal representative;

<i>HK\$</i>	means Hong Kong dollars.
<i>Incapacity</i>	means permanent and entire incapacity, whether or not caused during work, as determined in accordance with the standard formulated by the Company;
<i>Issue Price</i>	means the final price per Share (exclusive of brokerage and Stock Exchange transaction levy) to be agreed between the Company, Morgan Stanley Dean Witter Asia Limited and China International Capital Corporation Limited at which Shares are to be sold under the proposed public offering of the Shares in Hong Kong;
<i>Listing Rules</i>	means the Rules Governing the Listing of Securities on the Stock Exchange
<i>Mandatory Moratorium</i>	means any prohibition on the exercise of any Effective Option, the imposition of which is not made by nor within the control of the Company. For the avoidance of doubt and by way of illustration, this includes any mandatory prohibition on the exercise of any Option imposed by the central government of the People's Republic of China;
<i>Mandatory Moratorium Period</i>	means the period of time during which an Effective Option is subject to a Mandatory Moratorium;
<i>Mandatory Transfer</i>	means a termination of employment by a member of the Group of a Transferred Personnel;
<i>Offer Date</i>	means the date on which an Option is offered to an Employee;
<i>Option</i>	means a right to subscribe for Shares granted pursuant to the terms of the Scheme;
<i>Option Period</i>	means, in respect of any particular Option, the period to be determined and notified by the Board to each Grantee during which the Grantee may exercise such Option in accordance with the terms of the Scheme. Such period may commence on a day after the second anniversary of the Offer Date and in any event shall end not later than 10 years from the Offer Date but subject to the provisions for early termination thereof contained herein;

<i>Scheme</i>	means this share option scheme in its present form or as amended from time to time (except that references to the Scheme in Clause 2 shall only refer to the original pre-global offering share option scheme as adopted on 1 June 2000);
<i>Shares</i>	means shares of HK\$0.10 each in the share capital of the Company (or of such other nominal amount as may result from a sub-division, consolidation, reclassification or reconstruction of such share capital from time to time);
<i>Stock Exchange</i>	means The Stock Exchange of Hong Kong Limited;
<i>Subscription Price</i>	means the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option as described in Clause 5;
<i>Subsidiary</i>	means a company which is for the time being and from time to time a subsidiary (within the meaning of section 2(4) of the Companies Ordinance) of the Company whether incorporated in Hong Kong or elsewhere;
<i>Transferred Personnel</i>	means such personnel who are transferred due to reasons which are beyond their control, and in respect of whom such transfer is mandatory. This includes a transfer to entities outside the Group which is initiated by the central government of the People's Republic of China. All the other personnel who are transferred shall not be regarded as "Transferred Personnel" but will be regarded as a personnel who has left the service, and will be treated in accordance with Clause 6.3(a) of this Scheme. The Board shall be responsible for the determination of the Transferred Personnel; and
<i>Vesting Schedule</i>	means the arrangement whereby Options granted at a particular time can be exercised in one lot or in batches in accordance with a pre-determined timetable as set out in the relevant grant letter.

1.2 Clause headings are inserted for convenience only and shall be ignored in the interpretation of this Scheme. References herein to Clauses are to clauses of this Scheme.

1.3 Unless the context otherwise requires, words importing the singular include the plural and vice versa, and words importing gender or the neuter shall include both genders and the neuter.

1.4 References to any ordinance or law shall include any statutory modification, amendment or re-enactment thereof.

2. CONDITIONS

2.1 The Scheme has taken effect on 21 June 2000. Any alterations to the Scheme shall be subject to the requirements of Clause 13.

3. DURATION AND ADMINISTRATION

3.1 Subject to Clause 14, the Scheme shall be valid and effective for a period of 10 years commencing on the Effective Date, after which period no further Options shall be granted but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Scheme.

3.2 The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided herein) shall be final and binding on all parties.

4. GRANT OF OPTION

4.1 On and subject to the terms of the Scheme, the Board shall be entitled at any time and from time to time prior to the date that trading in the Shares commences on the Stock Exchange to offer to grant to any Employee as the Board may in its absolute discretion select an Option to subscribe for such number of Shares (being a Board Lot or an integral multiple thereof) as the Board may determine at the Subscription Price. The Board may in its absolute discretion specify such conditions (if any) as it thinks fit when making such offer to the Employee, (including, without limitation, as to performance criteria to be satisfied by the Employee and/or the Company) which must be satisfied before an Option can be exercised.

4.2 The Directors shall not offer to grant any Option to any Employee within the period of one month preceding the date of publication of the interim results or within the period of one month preceding the date of the preliminary announcement of the final results of the Company for any financial year.

4.3 An offer to grant an Option shall be made to any Employee by letter in such form as the Board may from time to time determine specifying the number of Shares, the Subscription Price, the Option Period in respect of which the offer is made, the date by which the Option must be applied for (being a date not more than 28 days after the Offer Date and provided that such offer shall be open for acceptance after the effective period of the Scheme stated in Clause 4.1) and further requiring the Employee to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Scheme. Such offer shall be personal to the Employee concerned and shall not be transferable.

4.4 An Option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within the time period specified in the offer of the grant of the Option. Such remittance shall in no circumstances be refundable.

4.5 Any offer of the grant of an Option may be accepted or deemed to have been accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a Board Lot or an integral multiple thereof. To the extent that the offer of the grant of an Option is not accepted within 28 days from the date upon which it is made in the manner indicated in Clause 4.4, it will be deemed to have been irrevocably declined.

5. SUBSCRIPTION PRICE

5.1 The Subscription Price in respect of any Option shall be a price (subject to any adjustments made pursuant to Clause 10) equal to the Issue Price.

6. EXERCISE OF OPTIONS

6.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Grantee shall entitle the Company to cancel any Option granted to such Grantee (to the extent not already exercised).

6.2 An Option may be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) in the manner set out in Clauses 6.3 and 6.4 by the Grantee giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares to be subscribed. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and the remittance and, where appropriate, receipt of the Auditors' certificate pursuant to Clause 9, the Company shall allot and issue the relevant Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.

6.3 Subject as hereinafter provided and Clause 4, an Option may be exercised by the Grantee at any time or times during the Option Period provided that:

- (a) in the event of the Grantee ceasing to be an Employee for any reason other than his death, retirement, Incapacity, Mandatory Transfer or on one or more of the grounds specified in Clause 7.1(d) leading to a lapse of the Option, the Grantee may exercise all the Effective Options granted to him at the date of cessation of his employment or office (to the extent not already exercised) on the date of such cessation, which date shall be the last actual working day with the Company or the relevant Subsidiary whether salary is paid in lieu of notice or not. All the Effective Options which have not been exercised on the date of cessation of employment will lapse automatically on the date immediately after such cessation and such Options shall in no circumstances be exercisable. For the avoidance of doubt, a Grantee does not cease to be an Employee only for the reason of an internal transfer to a Subsidiary;
- (b) in the event of the death of the original Grantee and none of the events under Clause 7.1(d) has occurred, all the Options granted to the Grantee shall be vested in the Grantee automatically on the date of death, and the lawful

successors of the Grantee shall be entitled within anytime from the date of death to the earlier of (i) 12 months after the date of death and (ii) the end of the Option Period to exercise all the Options in full (to the extent not already exercised, PROVIDED THAT where the Board has exercised its power under Clause 6.3(h) below to extend the Option Period of any such Option, then the successors of the Grantee may exercise the affected Option(s) for an additional period, being that notified by the Board under Clause 6.3(h)). Any such Options which are not exercised within the applicable time determined as aforesaid shall lapse automatically. The legal successors to the above Options shall be limited to legal representatives of the deceased Grantee or persons who are entitled to inherit the rights of exercise of the deceased Grantee under this Scheme by will or by law of succession;

- (c) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) the Company shall use its best endeavours to procure that such offer is extended to all the Grantees (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional, the Grantee shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within 21 days after the date on which such general offer becomes or is declared unconditional;
- (d) in the event of an effective resolution being passed for the voluntary winding-up of the Company or an order of Court is made for the winding-up of the Company, the Grantee may by notice in writing to the Company within 21 days after the date of such resolution elect to be treated as if the Option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice, such notice to be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the Grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election;
- (e) if, pursuant to the Companies Ordinance, a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all Grantees (together with a notice of the existence of the provisions of this Clause) on the same date as it despatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee shall be entitled to exercise all or any of his Options in whole or

in part at any time prior to 12 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options under this Clause 6.3(e) shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of Grantees to exercise their respective Options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension;

- (f) in the event of the retirement or Incapacity of the Grantee and none of the events under Clause 7.1(d) has occurred, all the Options granted to the Grantee shall continue to vest in the Grantee according to the relevant Vesting Schedule, and the Grantee may exercise all Effective Options vested in him according to the Vesting Schedule within the Option Period;
- (g) in the event of a Mandatory Transfer and none of the events under Clause 7.1(d) has occurred:
 - (i) the Transferred Personnel may exercise all Effective Options vested in him on or before the date of the Mandatory Transfer (which date shall be the last actual working day of the Transferred Personnel with the relevant member of the Group whether salary is paid in lieu of notice or not); and
 - (ii) in relation to Options granted to the Transferred Personnel which have not vested in him on or before the date of the Mandatory Transfer (*Unvested Options*), the Board shall have the right to vest such number of Unvested Options in the Transferred Personnel (*Effective Unvested Options*) on the date of the Mandatory Transfer as the Board may decide in its absolute discretion,

and the Transferred Personnel may exercise all the Effective Options (to the extent not already exercised) and the Effective Unvested Options at any time from the date of the Mandatory Transfer to the earlier of (i) 12 months after the date of the Mandatory Transfer and (ii) the end of the Option Period, PROVIDED THAT where the Board has exercised its power under Clause 6.3(h) below to extend the Option Period of any such Effective Option or

Effective Unvested Option, then the Transferred Personnel may exercise the affected Effective Option(s) and/or Effective Unvested Option(s) for an additional period, being that notified by the Board under Clause 6.3(h). All the Options which are not Effective Options or not Effective Unvested Options will lapse automatically on the date immediately after the date of such Mandatory Transfer. All the Effective Options and Effective Unvested Options which have not been exercised by the applicable time determined as aforesaid shall lapse automatically; and

- (h) in the event that a Mandatory Moratorium is imposed in respect of any Effective Option during its Option Period (being the Option Period notified by the Board to the Grantee at the time of grant pursuant to Clause 4.3 and as may be subsequently modified in accordance with other terms of this Scheme), the Board shall have the power to extend the Option Period of the affected Effective Option by such period (which shall not exceed the aggregate Mandatory Moratorium Period to which the relevant Effective Option is at that time known to the Board to have been and/or will be subject) as the Board shall in its absolute discretion determine, by giving notice thereof to the relevant Grantee.

6.4 The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles of Association of the Company for the time being in force and shall rank pari passu with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the date of allotment.

6.5 A Share issued upon the exercise of an Option shall not carry voting rights until the registration of the Grantee (or any other person designated by the Grantee) as the holder thereof. If under the terms of a resolution passed or an announcement made by the Company a dividend is to be or is proposed to be paid to holders of Shares on the register on a date prior to the date when an Option was effectively exercised, the Shares to be issued upon such exercise will not rank for such dividend.

7. LAPSE OF OPTION

7.1 An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period (as extended pursuant to Clause 6.3(h), if applicable);
- (b) the expiry of any of the periods referred to in Clause 6.3 (a), (b), (c), (e) and (g);
- (c) subject to Clause 6.3(d), the date of the commencement of the winding-up of the Company (as determined in accordance with the Companies Ordinance);

- (d) the date on which the Board resolves that the Option of the Grantee shall lapse and not be exercisable as a result of the Grantee ceasing to be an Employee by reason of the summary termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board or the board of directors of the relevant Subsidiary to the effect that the employment of a Grantee has or has not been terminated on one or more of the grounds specified in this Clause 7.1(d) shall be conclusive for the purpose of determining whether the employment of the Grantee will be terminated; or
- (e) the date on which the Grantee commits a breach of Clause 6.1.

8. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

8.1 The maximum number of Shares in respect of which Options may be granted under the Scheme shall not exceed 27,116,600.

8.2 No Employee shall be granted an Option which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued to him under all Options previously granted to him which have been exercised, and, issuable to him under all Options previously granted to him which are for the time being subsisting and unexercised, would exceed 25 per cent. of the aggregate number of Shares for the time being issued and issuable under the Scheme.

8.3 The maximum number of Shares referred to in Clauses 8.1 and 8.2 shall be adjusted, in such manner as the Auditors shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transfer to which the Company is a party.

9. CANCELLATION

9.1 Options granted but not exercised or lapsed may be cancelled with the consent of the relevant Grantee in accordance with the provisions of this Clause 9.

9.2 Cancellation of Options granted but not exercised must be approved by a resolution of the Company in general meeting, with the relevant Grantees and their associates abstaining from voting. Any vote taken at such meeting to approve such cancellations must be taken by poll.

10. REORGANISATION OF CAPITAL STRUCTURE

10.1 In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements (other than an issue of Shares as consideration in respect of a transaction to which the

Company is a party), the Board shall make such corresponding adjustments (if any) to:

- (a) the number or nominal amount of Shares, the subject matter of the Option (insofar as it is unexercised); and/or
- (b) the aggregate number of Shares subject to outstanding Options; and/or
- (c) the Subscription Price; and/or
- (d) the method of exercise of the Option,

as the Auditors shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any adjustment shall be made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such adjustment shall remain as nearly as possible the same as that to which he was entitled before such adjustment, but so that no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of the Company for which any Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments. The capacity of the Auditors in this Clause 10 is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the Grantees. The costs of the Auditors shall be borne by the Company.

10.2 If there has been any alteration in the capital structure of the Company as referred to in Clause 10.1, the Company shall, upon receipt of a notice from the Grantee in accordance with Clause 6.2, inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made pursuant to the certificate of the Auditors obtained by the Company for such purpose, or if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the Auditors to issue a certificate in that regard in accordance with Clause 10.1.

11. SHARE CAPITAL

11.1 The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Board shall make available sufficient authorised but unissued share capital of the Company to meet subsisting requirements on the exercise of Options.

12. DISPUTES

12.1 Any dispute arising in connection with the Scheme (whether as to the number of Shares the subject of an Option, the amount of the Subscription Price or otherwise) shall be referred to the decision of the Auditors who shall act as experts and not as arbitrators and whose decision shall be final and binding.

12.2 In the event that any party to the dispute referred to above does not agree to resolve the relevant dispute in accordance with the procedures set out in Clause 12.1

or the Auditors are unwilling to act in accordance with Clause 12.1, the dispute shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force and as may be amended by the rest of this Clause 12.2.

- (a) The appointing authority shall be the Hong Kong International Arbitration Centre (*HKIAC*).
- (b) The place of arbitration shall be in Hong Kong at the HKIAC.
- (c) There shall be only one arbitrator.
- (d) The language(s) to be used in the arbitral proceedings shall be English.

13. ALTERATION OF THE SCHEME

13.1 Subject to Clause 13.2, the Board may amend any of the provisions of this Scheme and the terms of the Options (including amendments in order to comply with changes in legal or regulatory requirements) at any time.

13.2 Any alterations to the terms and conditions of the Scheme which are to the advantage of Grantees, of a material nature or involve any change to the terms of Options granted shall be subject to the approval of the Company in general meeting save where the alterations take effect automatically under the existing terms of the Scheme.

13.3 For the avoidance of doubt, all Options granted after the Effective Date shall be bound by the rules of the Scheme as amended from time to time.

14. TERMINATION

14.1 The Company by resolution in general meeting or the Board may at any time terminate the operation of the Scheme and in such event no further Options will be offered but the provisions of the Scheme shall remain in full force in all other respects. All Options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Scheme.

15. MISCELLANEOUS

15.1 The Scheme shall not form part of any contract of employment between the Company, or any Subsidiary and any Employee and the rights and obligations of any Employee under the terms of his office or employment shall not be affected by his participation in the Scheme or any right which he may have to participate in it and the Scheme shall afford such an Employee no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.

15.2 The Scheme shall not confer on any person any legal or equitable rights (other than those arising from or constituting the Options themselves) against the Company directly or indirectly or give rise to any cause of action at law or in equity against the Company.

15.3 The Company shall bear the costs of establishing and administering the Scheme.

15.4 A Grantee shall be entitled to receive for information only copies of all notices and other documents sent by the Company to holders of Shares generally.

15.5 Any notice or other communication between the Company and a Grantee may be given by sending the same by post (postage prepaid and by airmail if sent to an address in a different territory) or by personal delivery to, in the case of the Company, its principal place of business in Hong Kong at 75th Floor, The Centre, Central, Hong Kong (and marked for the attention of the Secretary) or as notified to the Grantees from time to time and, in the case of the Grantee, his address as notified to the Company from time to time.

15.6 Any notice or other communication served by post:

- (a) by the Company shall be deemed to have been served 24 hours after the same was put in the post; and
- (b) by the Grantee shall not be deemed to have been received until the same shall have been received by the Company.

15.7 All allotments and issues of Shares under the Scheme shall be subject to any necessary consents under any relevant enactments or regulations for the time being in Hong Kong or elsewhere. A Grantee shall be responsible for complying with any requirements to be fulfilled in order to obtain or obviate the necessity to obtain any such consent that may be required by any country or jurisdiction in order to permit the grant or exercise of the Option. The Company shall not be responsible for any failure by a Grantee to obtain any such consent or for any tax or other liability to which a Grantee may become subject as a result of his participation in the Scheme.

15.8 The Board shall have the power from time to time to make or vary regulations for the administration and operation of the Scheme, provided that the same are not inconsistent with the provisions of the Scheme. The costs of introducing and administering the Scheme shall be borne by the Company.

15.9 The Scheme and all Options granted hereunder shall be governed by and construed in accordance with Hong Kong law.

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**ADOPTED BY ORDINARY RESOLUTION
OF THE COMPANY ON 1 JUNE 2000 AND
AMENDED BY ORDINARY RESOLUTION
OF THE COMPANY ON 13 MAY 2002, 11 MAY 2007 AND 26 MAY 2009**

**CHINA UNICOM (HONG KONG) LIMITED
(中国联合网络通信(香港)股份有限公司)**

(formerly known as

“CHINA UNICOM LIMITED 中国联通股份有限公司”)

(a company incorporated in Hong Kong with limited liability)

PRE-GLOBAL OFFERING SHARE OPTION SCHEME

CHINA UNICOM (HONG KONG) LIMITED
(中国联合网络通信(香港)股份有限公司)

(formerly known as
“CHINA UNICOM LIMITED 中国联通股份有限公司”)
(a company incorporated in Hong Kong with limited liability)

SHARE OPTION SCHEME

1. DEFINITIONS

1.1 In the Scheme the following expressions have the following meanings:

<i>associate</i>	has the meaning ascribed to it in the Listing Rules
<i>Auditors</i>	means the auditors for the time being of the Company;
<i>Board</i>	means the board of directors from time to time of the Company or a duly authorised committee thereof;
<i>Board Lot</i>	means the board lot in which Shares are traded on the Stock Exchange from time to time;
<i>Connected Persons</i>	has the meaning ascribed to it in the Listing Rules;
<i>Companies Ordinance</i>	means the Hong Kong Companies Ordinance (Chapter 32 of the laws of Hong Kong (as amended from time to time));
<i>Company</i>	means China Unicom (Hong Kong) Limited (中国联合网络通信(香港)股份有限公司) (formerly known as “China Unicom Limited 中国联通股份有限公司 ”), a company incorporated in Hong Kong with limited liability;
<i>Effective Date</i>	means the date on which the Scheme becomes unconditional;
<i>Effective Options</i>	Options granted pursuant to the Scheme and vested in the Grantee according to the relevant Vesting Schedule;
<i>Eligible Participant</i>	means any employee of the Company or any subsidiary including (without limitation) any executive director in the employment of the Company or any subsidiary, or any of the Non-executive Directors;
<i>Group</i>	means the Company and its subsidiaries;

<i>financial year</i>	means a year or other period for which the Company's consolidated accounts are made up;
<i>Grantee</i>	means any Eligible Participant who accepts the offer of the grant of any Option in accordance with the terms of the Scheme or (where the context so permits) a person who is entitled to exercise any such Option in consequence of the death of the original Grantee or, if necessary, in the case of Incapacity, the Eligible Participant's legal successors, lawful attorney or legal representative;
<i>HK\$</i>	means Hong Kong dollars;
<i>Incapacity</i>	means permanent and entire incapacity, whether or not caused during work, as determined in accordance with the standard formulated by the Company;
<i>Listing Rules</i>	means the Rules Governing the Listing of Securities on the Stock Exchange;
<i>Mandatory Moratorium</i>	means any prohibition on the exercise of any Effective Option, the imposition of which is not made by nor within the control of the Company. For the avoidance of doubt and by way of illustration, this includes any mandatory prohibition on the exercise of any Option imposed by the central government of the People's Republic of China;
<i>Mandatory Moratorium Period</i>	means the period of time during which an Effective Option is subject to a Mandatory Moratorium;
<i>Mandatory Transfer</i>	means a termination of employment by a member of the Group of a Transferred Personnel;
<i>Non-executive Director(s)</i>	means the non-executive directors of the Company which include the independent non-executive directors of the Company;
<i>Offer Date</i>	means the date on which an Option is offered to an Eligible Participant;
<i>Option</i>	means a right to subscribe for Shares granted pursuant to the terms of the Scheme;
<i>Option Period</i>	means, in respect of any particular Option, the period to be determined and notified by the Board to each Grantee during which the Grantee may exercise such Option in accordance with the terms of the Scheme. Such period may commence on a day after the Offer Date and in any event shall end not later than 10 years from the Offer Date but subject to the provisions for early termination thereof contained herein;

<i>Scheme</i>	means this share option scheme in its present form or as amended from time to time (except that references to the Scheme in Clause 3 shall only refer to the original share option scheme as adopted on 1 June 2000);
<i>Shares</i>	means shares of HK\$0.10 each in the share capital of the Company (or of such other nominal amount as may result from a sub-division, consolidation, reclassification or reconstruction of such share capital from time to time);
<i>Stock Exchange</i>	means The Stock Exchange of Hong Kong Limited;
<i>Subscription Price</i>	means the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option as described in Clause 6;
<i>substantial shareholder</i>	has the meaning ascribed to it under the Listing Rules;
<i>subsidiary</i>	means a company which is for the time being and from time to time a subsidiary (within the meaning of section 2(4) of the Companies Ordinance) of the Company whether incorporated in Hong Kong or elsewhere;
<i>Transferred Personnel</i>	means such personnel who are transferred due to reasons which are beyond their control, and in respect of whom such transfer is mandatory. This includes a transfer to entities outside the Group which is initiated by the central government of the People's Republic of China. All the other personnel who are transferred shall not be regarded as "Transferred Personnel" but will be regarded as a personnel who has left the service, and will be treated in accordance with Clause 7.3(a) of this Scheme. The Board shall be responsible for the determination of the Transferred Personnel; and
<i>Vesting Schedule</i>	means the arrangement whereby Options granted at a particular time can be exercised in one lot or in batches in accordance with a pre-determined timetable as set out in the relevant grant letter.

1.2 Clause headings are inserted for convenience only and shall be ignored in the interpretation of this Scheme. References herein to Clauses are to clauses of this Scheme.

1.3 Unless the context otherwise requires, words importing the singular include the plural and vice versa, and words importing gender or the neuter shall include both genders and the neuter.

1.4 References to any ordinance or law shall include any statutory modification, amendment or re-enactment thereof.

2. PURPOSE

2.1 The purpose of this Scheme is to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company's business and that of its subsidiaries.

3. CONDITIONS

3.1 The Scheme has taken effect on 21 June 2000. Any alterations to the Scheme shall be subject to the requirements of Clause 15.

4. DURATION AND ADMINISTRATION

4.1 Subject to Clause 16, the Scheme shall be valid and effective for a period of 10 years commencing on the Effective Date, after which period no further Options shall be granted but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Scheme.

4.2 The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided herein) shall be final and binding on all parties.

5. GRANT OF OPTIONS

5.1 On and subject to the terms of the Scheme, the Board shall be entitled at any time and from time to time within 10 years after the Effective Date to offer to grant to any Eligible Participant as the Board may in its absolute discretion select an Option to subscribe for such number of Shares (being a Board Lot or an integral multiple thereof) as the Board may determine at the Subscription Price. The Board may in its absolute discretion specify such conditions (if any) as it thinks fit when making such offer to the Eligible Participant, (including, without limitation, as to performance criteria to be satisfied by the Eligible Participant and/or the Company) which must be satisfied before an Option can be exercised.

5.2 The Directors shall not offer to grant any Option to any Eligible Participant:

- (a) after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers; or
- (b) during the period of one month immediately preceding the earlier of:
 - (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the Company's Listing

Agreement with the Stock Exchange) for the approval of the Company's interim or annual results; and

(ii) the deadline for the Company to publish its interim or annual results under the Listing Agreement,

and ending on the date of the results announcement.

5.3 An offer to grant an Option shall be made to any Eligible Participant by letter in such form as the Board may from time to time determine specifying the number of Shares, the Subscription Price, the Option Period in respect of which the offer is made, the date by which the Option must be accepted (being a date not more than 28 days after the Offer Date and provided that such offer shall be open for acceptance after the effective period of the Scheme stated in Clause 5.1) and further requiring the Eligible Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Scheme. Such offer shall be personal to the Eligible Participant concerned and shall not be transferable.

5.4 An Option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within the time period specified in the offer of the grant of the Option. Such remittance shall in no circumstances be refundable.

5.5 Any offer of the grant of an Option may be accepted or deemed to have been accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a Board Lot or an integral multiple thereof. To the extent that the offer of the grant of an Option is not accepted within 28 days from the date upon which it is made in the manner indicated in Clause 5.4, it will be deemed to have been irrevocably declined.

6. SUBSCRIPTION PRICE

6.1 The Subscription Price in respect of any Option shall be a price determined by the Board and notified to any Eligible Participant (subject to any adjustments made pursuant to Clause 12) which shall be not less than the higher of:

- (a) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets on the relevant Offer Date in respect of such Option;
- (b) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the relevant Offer Date; and
- (c) the nominal value of the Shares.

7. EXERCISE OF OPTIONS

7.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Grantee shall entitle the Company to cancel any Option granted to such Grantee (to the extent not already exercised).

7.2 An Option may be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) in the manner set out in Clauses 7.3 and 7.4 by the Grantee giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares to be subscribed. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and the remittance and, where appropriate, receipt of the Auditors' certificate pursuant to Clause 12, the Company shall allot and issue the relevant Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.

7.3 Subject as hereinafter provided and Clause 5, an Option may be exercised by the Grantee at any time or times during the Option Period provided that:

- (a) in the event of the Grantee ceasing to be an Eligible Participant for any reason other than his death, retirement, Incapacity, Mandatory Transfer or on one or more of the grounds specified in Clauses 8.1(d) or 8.1(e) leading to a lapse of the Option, the Grantee may exercise all the Effective Options granted to him at the date of cessation of his employment or office (to the extent not already exercised) on the date of such cessation, which date shall be the last actual working day with the relevant member of the Group whether salary is paid in lieu of notice or not. All the Effective Options which have not been exercised on or before the date of cessation of employment will lapse automatically on the date immediately after such cessation and such Options shall in no circumstances be exercisable. For the avoidance of doubt, a Grantee does not cease to be an Eligible Participant only for the reason of an internal transfer to another member of the Group;
- (b) in the event of the death of the original Grantee and none of the events under Clauses 8.1(d) or 8.1(e) has occurred, all the Options granted to the Grantee shall be vested in the Grantee automatically on the date of death, and the lawful successors of the Grantee shall be entitled within anytime from the date of death to the earlier of (i) 12 months after the date of death and (ii) the end of the Option Period to exercise all the Options in full (to the extent not already exercised), PROVIDED THAT where the Board has exercised its power under Clause 7.3(h) below to extend the Option Period of any such Option, then the successors of the Grantee may exercise the affected Option (s) for an additional period, being that notified by the Board under Clause 7.3(h). Any such Options which have not been exercised by the applicable time determined as aforesaid shall lapse automatically. The legal successors to the above Options shall be limited to legal representatives of the deceased Grantee

or persons who are entitled to inherit the rights of exercise of the deceased Grantee under this Scheme by will or by law of succession;

- (c) if a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) the Company shall use its best endeavours to procure that such offer is extended to all the Grantees (on the same terms mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional, the Grantee shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within 21 days after the date on which such general offer becomes or is declared unconditional;
- (d) in the event of an effective resolution being passed for the voluntary winding-up of the Company or an order of Court is made for the winding-up of the Company, the Grantee may by notice in writing to the Company within 21 days after the date of such resolution elect to be treated as if the Option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice, such notice to be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the Grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election;
- (e) if, pursuant to the Companies Ordinance, a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all Grantees (together with a notice of the existence of the provisions of this Clause) on the same date as it despatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options under this Clause 7.3(e) shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such

Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of Grantees to exercise their respective Options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension;

- (f) in the event of the retirement or Incapacity of the Grantee and none of the events under Clauses 8.1(d) or 8.1(e) has occurred, all the Options granted to the Grantee shall continue to vest in the Grantee according to the relevant Vesting Schedule, and the Grantee may exercise all Effective Options vested in him according to the Vesting Schedule within the Option Period;
- (g) in the event of a Mandatory Transfer and none of the events under Clauses 8.1(d) or 8.1(e) has occurred:
 - (i) the Transferred Personnel may exercise all Effective Options vested in him on or before the date of the Mandatory Transfer (which date shall be the last actual working day of the Transferred Personnel with the relevant member of the Group whether salary is paid in lieu of notice or not); and
 - (ii) in relation to Options granted to the Transferred Personnel which have not vested in him on or before the date of the Mandatory Transfer (*Unvested Options*), the Board shall have the right to vest such number of Unvested Options in the Transferred Personnel (*Effective Unvested Options*) on the date of the Mandatory Transfer as the Board may decide in its absolute discretion,

and the Transferred Personnel may exercise all the Effective Options (to the extent not already exercised) and the Effective Unvested Options at any time from the date of the Mandatory Transfer to the earlier of (i) 12 months after the date of the Mandatory Transfer and (ii) the end of the Option Period, PROVIDED THAT where the Board has exercised its power under Clause 7.3(h) below to extend the Option Period of any such Effective Option or Effective Unvested Option, then the Transferred Personnel may exercise the affected Effective Option(s) and/or Effective Unvested Option(s) for an additional period, being that notified by the Board under Clause 7.3(h). All the Options which are not Effective Options or not Effective Unvested Options will lapse automatically on the date immediately after the date of such Mandatory Transfer. All the Effective Options and Effective Unvested Options which have not been exercised by the applicable time determined as aforesaid shall lapse automatically; and

- (h) in the event that a Mandatory Moratorium is imposed in respect of any Effective Option during its Option Period (being the Option Period notified by the Board to the Grantee at the time of grant pursuant to Clause 5.3 and as may be subsequently modified in accordance with the other terms of this Scheme), the Board shall have the power to extend the Option Period of the affected Effective Option by such period (which shall not exceed the aggregate Mandatory Moratorium Period to which the relevant Effective Option is at that time known to the Board to have been and/or will be subject) as the Board shall in its absolute discretion determine, by giving notice thereof to the relevant Grantee.

7.4 The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles of Association of the Company for the time being in force and shall rank pari passu with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the date of allotment.

7.5 A Share issued upon the exercise of an Option shall not carry voting rights until completion of the registration of the Grantee (or any other person designated by the Grantee) as the holder thereof. If under the terms of a resolution passed or an announcement made by the Company a dividend is to be or is proposed to be paid to holders of Shares on the register on a date prior to the date when an Option was effectively exercised, the Shares to be issued upon such exercise will not rank for such dividend.

8. LAPSE OF OPTION

8.1 An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period (as extended pursuant to Clause 7.3(h), if applicable);
- (b) the expiry of any of the periods referred to in Clause 7.3 (a), (b), (c), (e) and (g);
- (c) subject to Clause 7.3(d), the date of the commencement of the winding-up of the Company (as determined in accordance with the Companies Ordinance);
- (d) the date on which the Board resolves that the Option of the Grantee shall lapse and not be exercisable as a result of the Grantee, being an employee (including an executive director) of any member of the Group, ceasing to be such an employee by reason of the summary termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty. A resolution of the board of directors of the relevant member of the Group to the effect that the employment of a Grantee has or has not been terminated on

one or more of the grounds specified in this Clause 8.1(d) shall be conclusive for the purpose of determining whether the employment of the Grantee will be terminated;

- (e) the date on which the Board resolves that the Option of the Grantee shall lapse as a result of the Board or meeting of the shareholders of the Company having resolved, in accordance with their respective powers granted under the Articles of Association of the Company or relevant laws or regulation, that the Grantee, being a Non-executive Director, shall cease to hold the office of Non-executive Director on any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty, or being prohibited by laws or regulation or court order from being a director, or being reprimanded by the Stock Exchange or the stock exchanges or relevant government authorities of other jurisdictions outside Hong Kong; or
- (f) the date on which the Grantee commits a breach of Clause 7.1.

9. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

9.1 The maximum number of Shares in respect of which Options may be granted under the Scheme when aggregated with the maximum number of Shares in respect of which options may be granted under any other scheme involving the issue or grant of options over Shares or other securities by the Company and/or any of its subsidiaries shall not exceed 10 per cent. of the issued share capital of the Company as of the date of approval of the amendments to the Scheme by the shareholders of the Company in general meeting on 13 May 2002. Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the 10 per cent. limit. Upon the grant of options for Shares up to 10 per cent. of the issued share capital of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of Shares to be issued under this Scheme (when aggregated with securities to be issued under any other share option scheme(s) of the Company and/or any of its subsidiaries) may be increased by increments as determined by the Board provided that such increments shall not exceed 10 per cent. of the issued share capital of the Company as of the date of approval of such increments by the shareholders of the Company. Under any circumstances, the total number of Shares to be issued upon exercise of all outstanding options shall not exceed 30 per cent. of the issued share capital of the Company from time to time.

9.2 The maximum number of Shares in respect of which Options may be granted under the Scheme to any Eligible Participant (together with any Shares issued in respect of Options which have been exercised by that Eligible Participant and any Shares which would be issued upon the exercise of outstanding Options granted to that Eligible Participant) in any 12-month period up to the date of the latest grant shall not exceed 1.0 per cent. of the issued share capital of the Company from time to time, unless the relevant provisions of the Listing Rules are complied with.

9.3 The maximum number of Shares referred to in Clauses 9.1 and 9.2 shall be adjusted, in such manner as the Auditors shall certify in writing to the Board to be fair

and reasonable, in the event of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transfer to which the Company is a party.

10. GRANT OF OPTIONS TO CONNECTED PERSONS

10.1 The independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the Options) will be required to approve each grant of Options to a director, chief executive, or substantial shareholder of the Company or any of their respective associates.

10.2 If a grant of Options to a substantial shareholder or an independent non-executive director of the Company or their respective associates will result in the total number of Shares issued and to be issued upon exercise of Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1 per cent. of the issued share capital of the Company from time to time; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet at the date of each grant, in excess of HK\$5 million,

such further grant of Options will be required to be approved (voting by way of poll) by the shareholders of the Company. All Connected Persons of the Company will be required to abstain from voting at such general meeting, except that any Connected Person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the shareholder circular.

11. CANCELLATION

11.1 Options granted but not exercised or lapsed may be cancelled with the consent of the relevant Grantee in accordance with the provisions of this Clause 11.

11.2 Cancellation of Options granted but not exercised must be approved by a resolution of the Company in general meeting, with the relevant Grantees and their associates abstaining from voting. Any vote taken at such meeting to approve such cancellations must be taken by poll.

11.3 The Grantees whose Options are cancelled pursuant to this Clause 11 may be issued new Options in accordance with the provisions of the Scheme, provided unissued options are available under the Scheme (excluding any Options cancelled).

12. REORGANISATION OF CAPITAL STRUCTURE

12.1 In the event of any capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company in accordance with applicable laws

and regulatory requirements (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), the Board shall make such corresponding adjustments (if any) to:

- (a) the number or nominal amount of Shares, the subject matter of the Option (insofar as it is unexercised); and/or
- (b) the aggregate number of Shares subject to outstanding Options; and/or
- (c) the Subscription Price; and/or
- (d) the method of exercise of the Option with respect to the Board Lot if the Option is being exercised in part,

as the Auditors shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any adjustment shall be made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such adjustment shall remain as nearly as possible the same as that to which he was entitled before such adjustment, but so that no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of the Company for which any Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments. The capacity of the Auditors in this Clause 12 is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the Grantees. The costs of the Auditors shall be borne by the Company.

12.2 If there has been any alteration in the capital structure of the Company as referred to in Clause 12.1, the Company shall, upon receipt of a notice from the Grantee in accordance with Clause 7.2, inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made pursuant to the certificate of the Auditors obtained by the Company for such purpose, or if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the Auditors to issue a certificate in that regard in accordance with Clause 12.1.

13. SHARE CAPITAL

13.1 The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Board shall make available sufficient authorised but unissued share capital of the Company to meet subsisting requirements on the exercise of Options.

14. DISPUTES

14.1 Any dispute arising in connection with the Scheme (whether as to the number of Shares the subject of an Option, the amount of the Subscription Price or otherwise) shall be referred to the decision of the Auditors who shall act as experts and not as arbitrators and whose decision shall be final and binding.

14.2 In the event that any party to the dispute referred to above does not agree to resolve the relevant dispute in accordance with the procedures set out in Clause 14.1 or the Auditors are unwilling to act in accordance with Clause 14.1, the dispute shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force and as may be amended by the rest of this Clause 14.2.

- (a) The appointing authority shall be the Hong Kong International Arbitration Centre (*HKIAC*).
- (b) The place of arbitration shall be in Hong Kong at the HKIAC.
- (c) There shall be only one arbitrator.
- (d) The language(s) to be used in the arbitral proceedings shall be English.

15. ALTERATION OF THE SCHEME

15.1 Subject to Clause 15.2, the Board may amend any of the provisions of this Scheme and the terms of the Options (including amendments in order to comply with changes in legal or regulatory requirements) at any time.

15.2 Any alterations to the terms and conditions of the Scheme which are to the advantage of Grantees, of a material nature or involve any change to the terms of Options granted shall be subject to the approval of the Company in general meeting save where the alterations take effect automatically under the existing terms of the Scheme.

15.3 For the avoidance of doubt, all Options granted after the Effective Date shall, save and except the Subscription Price, be bound by the rules of the Scheme as amended from time to time.

16. TERMINATION

16.1 The Company by resolution in general meeting or the Board may at any time terminate the operation of the Scheme and in such event no further Options will be offered but the provisions of the Scheme shall remain in full force in all other respects. All Options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Scheme.

17. MISCELLANEOUS

17.1 The Scheme shall not form a contract of employment or part of any existing contract of employment between the relevant member of the Group and any Eligible Participant and the rights and obligations of any Eligible Participant under the terms of his office or employment shall not be affected by his participation in the Scheme or any right which he may have to participate in it and the Scheme shall afford such an Eligible Participant no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason.

17.2 The Scheme shall not confer on any person any legal or equitable rights (other than those arising from or constituting the Options themselves) against the Company directly or indirectly or give rise to any cause of action at law or in equity against the Company.

17.3 The Company shall bear the costs of establishing and administering the Scheme.

17.4 A Grantee shall be entitled to receive for information only copies of all notices and other documents sent by the Company to holders of Shares generally.

17.5 Any notice or other communication between the Company and a Grantee may be given by sending the same by post (postage prepaid and by airmail if sent to an address in a different territory) or by personal delivery to, in the case of the Company, its principal place of business in Hong Kong at 75th Floor, the Centre, Central, Hong Kong (and marked for the attention of the Secretary) or as notified to the Grantees from time to time and, in the case of the Grantee, his address as notified to the Company from time to time.

17.6 Any notice or other communication served by post:

- (a) by the Company shall be deemed to have been served 24 hours after the same was put in the post; and
- (b) by the Grantee shall not be deemed to have been received until the same shall have been received by the Company.

17.7 A Grantee shall be responsible for complying with any requirements to be fulfilled in order to obtain or obviate the necessity to obtain any consent under any relevant enactment or regulations that may be required by any country or jurisdiction in order to permit the grant or exercise of the Option. The Company shall not be responsible for any failure by a Grantee to obtain any such consent or for any tax or other liability to which a Grantee may become subject as a result of his participation in the Scheme.

17.8 The Board shall have the power from time to time to make or vary regulations for the administration and operation of the Scheme, provided that the same are not inconsistent with the provisions of the Scheme.

17.9 The Scheme and all Options granted hereunder shall be governed by and construed in accordance with Hong Kong law.

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**ADOPTED BY ORDINARY RESOLUTION
OF THE COMPANY ON 1 JUNE 2000 AND
AMENDED BY ORDINARY RESOLUTION
OF THE COMPANY ON 13 MAY 2002,
11 MAY 2007 AND 26 MAY 2009**

**CHINA UNICOM (HONG KONG) LIMITED
(中国联合网络通信(香港)股份有限公司)**

(formerly known as

“CHINA UNICOM LIMITED 中国联通股份有限公司”)

(a company incorporated in Hong Kong with limited liability)

SHARE OPTION SCHEME



CHINA UNICOM (HONG KONG) LIMITED
中国联合网络通信（香港）股份有限公司

SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME
(APPROVED BY AN ORDINARY RESOLUTION OF THE
COMPANY ON 16 SEPTEMBER 2008
AND EFFECTIVE FROM 15 OCTOBER 2008 AND
AMENDED BY ORDINARY RESOLUTION OF THE
COMPANY ON 26 MAY 2009)

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CHINA UNICOM (HONG KONG) LIMITED
SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME

The Special Purpose Unicom Share Option Scheme is adopted in connection with the merger of the Company and Netcom by way of a scheme of arrangement of Netcom under Section 166 of the Companies Ordinance and has been formulated to establish and refine an effective internal incentive and disciplinary mechanism of the Company, to retain talented employees, and to encourage and promote the participants to diligently achieve an enhancement in the value of the Company. This Scheme is modelled on international practices, and has taken into consideration the specific circumstances in the development of the enterprise as well as the Company's remuneration and performance appraisal systems.

1. Definitions

In this Scheme, unless the context otherwise requires, the following terms shall have the meanings set out below:

“2004 Netcom Options”	means the Netcom Options granted by Netcom on 22 October 2004 pursuant to the Netcom Share Option Scheme;
“2005 Netcom Options”	means the Netcom Options granted by Netcom on 6 December 2005 pursuant to the Netcom Share Option Scheme;
“Adjustable Options”	has the meaning given to it in Clause 5(3);
“Board”	means the board of directors of the Company;
“change of control”	has the meaning given to it in Clause 9;
“Companies Ordinance”	means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time;
“Company”	means China Unicom (Hong Kong) Limited, a company incorporated in Hong Kong whose Shares are listed on the Hong Kong Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange, Inc.;
“County Branch Companies”	means the branch companies of the Provincial Companies located in various counties;
“Effective Options”	means Options granted pursuant to this Scheme, irrespective of whether such Options are exercisable in accordance with the relevant Vesting Schedule;
“Eligible Participants”	means the holders of Netcom Options outstanding as at the Netcom Scheme Record Time, being directors, chief executives or Middle-to-Senior Management or Specialised Professionals of Netcom or its Subsidiaries;

“Exercise Date”	means the calendar day on which Shares can be subscribed for where the requirements under this Scheme are satisfied. If Shares are not traded on the Hong Kong Stock Exchange on a particular Exercise Date, the Exercise Date shall be postponed to the next calendar day on which Shares are traded on the Hong Kong Stock Exchange;
“Exercise Price”	means the price per Share, determined in accordance with Clause 4(3) of this Scheme, which is payable by a grantee for the subscription of Shares as a result of an exercise of Options in accordance with this Scheme;
“First Tier”	has the meaning given to it in Clause 5(1)(a) or Clause 5(2)(a) (as the case may be);
“Fourth Tier”	has the meaning given to it in Clause 5(1)(d) or Clause 5(2)(d) (as the case may be);
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Mandatory Moratorium”	means any prohibition on the exercise of any Option which would otherwise be exercisable, the imposition of which is not made by nor within the control of the Company. For the avoidance of doubt and by way of illustration, this includes any mandatory prohibition on the exercise of any Option imposed by the central government of the People’s Republic of China;
“Mandatory Moratorium Period”	means the period of time during which an Option is subject to a Mandatory Moratorium;
“Middle-to-Senior Management”	means general manager or management staff with equivalent rank or above at various Provincial Companies or County Branch Companies of Netcom;
“Netcom”	means China Netcom Group Corporation (Hong Kong) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company with effect from the Netcom Scheme Effective Date;

“Netcom Options”	means the right to subscribe for shares in the capital of Netcom in accordance with the Netcom Share Option Scheme and comprise the 2004 Netcom Options and the 2005 Netcom Options;
“Netcom Scheme Effective Date”	means the date on which the Netcom Scheme of Arrangement becomes effective in accordance with its terms;
“Netcom Scheme of Arrangement”	means the scheme of arrangement under Section 166 of the Companies Ordinance between Netcom and its shareholders involving, among other things, the cancellation of all the issued shares of Netcom;
“Netcom Scheme Record Time”	means 5:00 p.m. (Hong Kong time) on 14 October 2008;
“Netcom Share Option Scheme”	means the Share Option Scheme for Middle-to-Senior Management of China Netcom Group Corporation (Hong Kong) Limited adopted by Netcom on 30 September 2004, as amended from time to time;
“Options”	means the right to subscribe for Shares at the Exercise Price in accordance with this Scheme, granted pursuant to this Scheme;
“Options Effective Term”	means the period commencing from the Netcom Scheme Effective Date to the date on which Options lapse in accordance with the terms of this Scheme;
“Provincial Companies”	means the subsidiaries or branch companies of Netcom located in various provinces, autonomous regions and municipalities of the People’s Republic of China;
“Remuneration Committee”	means the committee established by the Board, with primary duties to formulate remuneration policies and is responsible for dealing with all matters relating to this Scheme as authorised by the Board; its members are appointed by the Board with terms of office determined by the Board and the Board has the power to remove any member at any time;
this “Scheme”	means the Special Purpose Unicom Share Option Scheme of China Unicom (Hong Kong) Limited;
“Scheme Effective Term”	means the period commencing on the Netcom Scheme Effective Date and ending on 30 September 2014 (inclusive), being the date falling 10 years after the date on which the Netcom Share Option Scheme was adopted, unless the Board terminates this Scheme in accordance with its power under the terms of this Scheme;
“Second Tier”	has the meaning given to it in Clause 5(1)(b) or Clause 5(2)(b) (as the case may be);

“Share Exchange Ratio”	means the exchange ratio of 1.508 Shares for each share of Netcom under the Netcom Scheme of Arrangement;
“Shares”	means ordinary shares of HK\$0.10 each in the share capital of the Company;
“Special Purpose 2004 Unicom Options”	has the meaning given to it in Clause 5(1);
“Special Purpose 2005 Unicom Options”	has the meaning given to it in Clause 5(2);
“Specialised Professionals”	means professionals or management staff or technical or marketing staff holding important positions of Netcom or its Subsidiaries who are important to the development of Netcom’s business;
“Subsidiaries”	means the branch companies or subsidiaries of Netcom or joint venture companies with legal person status in which Netcom has invested. The definitions of subsidiaries in the Companies Ordinance shall govern the relevant percentages of shareholding or voting right control that Netcom shall have in these companies;
“Third Tier”	has the meaning given to it in Clause 5(1)(c) or Clause 5(2)(c) (as the case may be); and
“Vesting Schedule”	means the arrangement whereby Options granted at a particular time can be exercised in one lot or in batches in accordance with a pre-determined timetable.

2. Eligibility of Participants

The Eligible Participants of this Scheme are the holders of Netcom Options outstanding as at the Netcom Scheme Record Time.

3. Number of Shares Subject to this Scheme

(1) The total number of Options to be granted by the Company to all Eligible Participants under this Scheme shall be equal to the product of (a) the Share Exchange Ratio and (b) the number of Netcom Options outstanding as at the Netcom Scheme Record Time. The maximum number of Shares which may be issued upon the exercise of all options to be granted under this Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of this Scheme.

(2) The number of Options which shall be granted to an Eligible Participant shall not exceed such number of Options determined in accordance with the formula set out in Clause 4(3).

4. Grant of Options

(1) The Board shall grant Options to the Eligible Participants at the Exercise Price on the terms and conditions set out in this Scheme.

(2) The Options shall be granted by the Board no later than 10 days after the Netcom Scheme Effective Date.

(3) The number of Options to be granted by the Board to an Eligible Participant and the Exercise Price of such Options shall be determined in accordance with the following formula:

$$\text{Number of Options} = A \times B$$

$$\text{Exercise Price} = C / A$$

where:

A is the Share Exchange Ratio;

B is the number of outstanding 2004 Netcom Options or 2005 Netcom Options (as the case may be) held by an Eligible Participant at the Netcom Scheme Record Time; and

C is the exercise price of an outstanding 2004 Netcom Option or an outstanding 2005 Netcom Option (as the case may be) held by an Eligible Participant at the Netcom Scheme Record Time, being HK\$8.40 for a 2004 Netcom Option and HK\$12.45 for a 2005 Netcom Option,

provided that fractions of Options will not be granted to any Eligible Participant.

Based on the formula set out above, the Exercise Price of a Special Purpose 2004 Unicom Option is HK\$5.57 and the Exercise Price of a Special Purpose 2005 Unicom Option is HK\$8.26.

5. Exercise of Options and Proceeds

(1) Options granted to Eligible Participants in respect of the 2004 Netcom Options held by them as at the Netcom Scheme Record Time (the **Special Purpose 2004 Unicom Options**) shall be effective from the Netcom Scheme Effective Date until 16 November 2010. Any Special Purpose 2004 Unicom Option not exercised by 16 November 2010 shall lapse automatically. The Special Purpose 2004 Unicom Options shall only be exercised in batches in accordance with the Vesting Schedule below. The maximum number of Special Purpose 2004 Unicom Options that can be exercised at each tier shall not exceed the limits set out below:

- (a) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 17 May 2006 to 16 November 2010 may be exercised at any time from the Netcom Scheme Effective Date to 16 November 2010 (the **First Tier**);

- (b) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 17 May 2007 to 16 November 2010 may be exercised at any time from the Netcom Scheme Effective Date to 16 November 2010 (the **Second Tier**);
- (c) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 17 May 2008 to 16 November 2010 may be exercised at any time from the Netcom Scheme Effective Date to 16 November 2010 (the **Third Tier**); and
- (d) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 17 May 2009 to 16 November 2010 may be exercised at any time from 17 May 2009 to 16 November 2010 (the **Fourth Tier**).

(2) Options granted to Eligible Participants in respect of the 2005 Netcom Options held by them as at the Netcom Scheme Record Time (the **Special Purpose 2005 Unicom Options**) shall be effective from the Netcom Scheme Effective Date until 5 December 2011. Any Special Purpose 2005 Unicom Option not exercised by 5 December 2011 shall lapse automatically. The Special Purpose 2005 Unicom Options shall only be exercised in batches in accordance with the Vesting Schedule below. The maximum number of Special Purpose 2005 Unicom Options that can be exercised at each tier shall not exceed the limits set out below:

- (a) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 6 December 2007 to 5 December 2011 may be exercised at any time from the Netcom Scheme Effective Date to 5 December 2011 (the **First Tier**);
- (b) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 6 December 2008 to 5 December 2011 may be exercised at any time from 6 December 2008 to 5 December 2011 (the **Second Tier**);
- (c) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 6 December 2009 to 5 December 2011 may be exercised at any time from 6 December 2009 to 5 December 2011 (the **Third Tier**); and

(d) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants at the Netcom Scheme Record Time which are exercisable from 6 December 2010 to 5 December 2011 may be exercised at any time from 6 December 2010 to 5 December 2011 (the **Fourth Tier**).

(3) The exercise of a portion of the Options of the Eligible Participants (excluding Eligible Participants who were senior management and directors of Netcom prior to the Netcom Scheme Effective Date) exercisable at each tier pursuant to the above Vesting Schedule (the **Adjustable Options**) shall be subject to the results of the performance review of the grantee in respect of the year immediately preceding the commencement of the relevant tier as measured against the Company's performance review plan. Part or all of the Adjustable Options shall be subject to cancellation depending upon the results of the performance review. The Adjustable Options shall be determined by the Company with reference to the number of Options exercisable at each tier, the expected yield of each Option and the difference between the average price of the Shares in the year immediately preceding the commencement of the relevant tier and the Exercise Price of the Options.

(4) Except for the transmission of the Options on the death of a grantee of Options to his personal representatives or authorised persons, neither the Options nor any relevant rights may be transferred, assigned or otherwise disposed of by any grantee to any other person. If a grantee transfers, assigns or disposes of such Options or rights, the Company will be entitled to cancel the Options granted to the grantee.

(5) The increase in the number of Options exercisable by a grantee as a result of another tier of the Vesting Schedule applying (for example, (i) when the First Tier applies, the Options exercisable at the First Tier shall be deemed as the increase in the number of Options exercisable by the grantee and (ii) when the Second Tier applies, the Options exercisable at the Second Tier shall be the increase in the number of Options exercisable by the grantee) shall be subject to cancellation upon the happening of any of the following events:

- (a) the annual performance review of the Company for the year preceding the commencement of the relevant tier shows that the Company is unable to meet the performance review targets;
- (b) the issuance of a negative opinion by the Company's accountants or the Company's accountants being unable to issue an opinion on the financial reports in respect of the year preceding the commencement of the relevant tier; or
- (c) where the Supervisory Panel or the audit authorities for State-owned enterprises of the State Council have raised material objections to the results or the annual report of the Company in respect of the year preceding the commencement of the relevant tier.

(6) In the event that the grantee is to be demoted, his unvested Options pursuant to the Vesting Schedule will be reduced to reflect his new position and the reduced Options will automatically lapse.

(7) In the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital, the Board has the right to make corresponding alterations to the number of Shares involved in the Options granted under this Scheme and the Exercise Price, provided that the proportion of the total number of Shares involved in this Scheme to the total number of issued Shares shall remain unchanged. Such adjustments shall give participants to this Scheme the same proportion of the issued share capital to which they would have been entitled prior to such alteration, and no adjustment shall be made the effect of which would be to enable Shares to be issued at less than its nominal value.

(8) In the event that a Mandatory Moratorium is imposed in respect of any Option during a time when it would otherwise be exercisable, the Board shall have the power to extend the period during which that Option may be exercisable by such period (which shall not exceed the aggregate Mandatory Moratorium Period to which the relevant Option is at that time known to the Board to have been and/or will be subject) as the Board shall in its absolute discretion determine, by giving notice thereof to the relevant Grantee.

(9) The proceeds from the exercise of Options shall be the multiple of the number of Options being exercised and the difference between the market price of the Shares upon the exercise of the Options by the grantee and the Exercise Price, less the relevant tax expenses. After exercising the Options, the proceeds shall belong to the person who exercised the Options. If the grantee does not exercise the Options within the period during which he is entitled to exercise the Options, the Options shall lapse and the proceeds shall be zero.

(10) Prior to exercising part or all of his Options, the grantee shall inform the Company in writing of his intention to exercise the Options together with the number of Shares, the Exercise Price etc.

(11) The grantee is required to exercise his Options through the intermediaries selected by the Company.

6. Rights on Cessation of Employment

(1) If the grantee of an Option ceases to be an employee because of misconduct or criminal conviction, all the Effective Options of such employee which have not yet been exercised shall lapse on the date of cessation of his employment and such Options shall in no circumstances be exercisable.

(2) If the grantee of an Option is transferred internally to China United Telecommunications Corporation and its controlled entities, China Network Communications Group Corporation and its controlled entities, or the Company and its subsidiaries, the grantee shall be entitled to exercise the Options in accordance with the Vesting Schedule and this Scheme.

(3) If the grantee of an Option is transferred out of the Company with the Company's consent (for any reason other than Clause 6(2)), the grantee may, at any time within 90 days of the date of the cessation of his employment, exercise the Options of such grantee which are exercisable as at the date of the cessation of his employment as well as the Options which are exercisable at the tier immediately following the tier that applies to the grantee at the date of cessation of his employment. Any such Options which

are not exercised within the 90-day period shall lapse automatically. All the Options exercisable at later tiers shall lapse automatically.

(4) If the grantee of an Option retires, the grantee may, at any time within 90 days of the date of his retirement, exercise the Effective Options of such grantee which have not yet been exercised. Any such Options which are not exercised within the 90-day period shall lapse automatically.

(5) If the grantee of an Option ceases to be an employee for any reason other than death, loss of capacity or any of the reasons as referred to under Clauses 6(1), 6(2), 6(3) or 6(4) and for reason of his resignation, all of his Effective Options not yet exercised shall lapse on the date of cessation of his employment.

7. Rights on Death

If the grantee of an Option dies and none of the grounds for cessation of employment as referred to in Clause 6(1) has occurred, Effective Options granted (but not yet exercised) shall be vested in the grantee's estate and the grantee's personal representatives or authorised persons shall be entitled to exercise such Effective Options within 90 days of the date of the grantee's death. Any such Options which are not exercised within the 90-day period shall lapse automatically.

8. Rights on Loss of Capacity

The guardian of the grantee of an Option or authorised persons may, at any time during the period within 90 days of the date of the loss of capacity of such grantee, exercise the Effective Options granted to such grantee but not yet exercised as at the date of the loss of capacity of such grantee. Any such Options which are not exercised within the 90-day period shall lapse automatically.

9. Change of Control

For the purpose of this Scheme, *change of control* means the occurrence of any of the following events following the Netcom Scheme Effective Date and the issue of Shares pursuant to the Netcom Scheme of Arrangement:

(1) any person, entity or organisation having acquired or become the holder of 30% or more of the Shares in issue or the voting rights attached to the Company's issued securities (or such percentage of voting rights as prescribed under the Hong Kong Code on Takeovers and Mergers triggering a mandatory offer obligation).

For the purpose of this Clause 9(1), the following circumstances shall not be regarded as a *change of control*:

- the acquiring person(s), entity(ies) or organisation(s) is/are connected with the Company within the definition of the Companies Ordinance;
- the Shares or the voting rights, as the case may be, are acquired by the Company;
- the Shares or the voting rights, as the case may be, are acquired by the employee share option scheme established or supervised by the Company (or by the related trust funds);

(2) the Company being a party to any material reorganisation, merger or acquisition which has been unanimously approved by the shareholders of the Company;

(3) the Company being liquidated or reorganised.

In the event of change of control, the Effective Options which are held by the grantee but outstanding shall become immediately exercisable. The exercise period shall be 12 months from the date on which the change of control occurs.

10. Amendments to and Termination of this Scheme

(1) The Board may amend any of the provisions of this Scheme and the terms of the Options (including amendments in order to comply with changes in legal or regulatory requirements) at any time.

(2) Any alterations to the matters set out in the Listing Rules which are to the advantage of grantees of Options shall only be made with the approval of the shareholders of the Company in general meeting.

(3) Any alterations to the terms and conditions of this Scheme which are of a material nature shall be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of this Scheme.

Any change to the authority of the Board in relation to alteration of the terms of this Scheme shall be approved by shareholders of the Company in general meeting.

The amended Scheme and the terms thereof shall comply with the relevant requirements of the Listing Rules.

(4) For the avoidance of doubt, all Options granted after the Netcom Scheme Effective Date shall be bound by the rules of the Scheme as amended from time to time.

(5) During the Scheme Effective Term, the Board may at any time terminate this Scheme, and in such event the Options granted under this Scheme (to the extent not already exercised) may still be exercised pursuant to the rules of this Scheme or may be cancelled by the Board pursuant to Clause 11.

11. Cancellation of the Options

The Board may resolve to cancel any Options granted but not yet exercised.

Lapsed Options shall be deemed to be automatically cancelled on the date of lapse.

12. Ranking of Shares

(1) Subject to the granting of listing by the Hong Kong Stock Exchange, the Shares to be allotted and issued upon the exercise of an Option will be Shares tradable in the stock market. The Company will have authorised the allotment and issue of such Shares. Such Shares may be allotted but unissued Shares, reserved Shares or Shares repurchased upon approval of the Board, provided that there will not be any contravention of applicable laws, regulations and the rules of the relevant stock exchange.

(2) Options which are outstanding shall not be entitled to any dividend and voting rights. The Shares allotted and issued upon the exercise of an Option will rank *pari passu* in all respects with the issued Shares, other than the rights and benefits attached to the Shares prior to the Exercise Date.

13. Duration of this Scheme

Unless the Board terminates this Scheme in accordance with its power under the terms of this Scheme, this Scheme will remain in effect during the Scheme Effective Term and will automatically terminate upon the expiration of the Scheme Effective Term.

14. General

(1) Unless otherwise provided, the decision of the Board regarding the Options shall be final and binding on all parties.

(2) This Scheme shall be administered and interpreted by the Remuneration Committee subject to the Listing Rules. The Human Resources Department of the Company shall be responsible for the implementation of this Scheme, and the formulation of the implementation rules of each grant which shall be put forward to the Board for approval.

(3) This Scheme shall become effective on the Netcom Scheme Effective Date.

(4) This Scheme and all Special Unicom Options granted hereunder shall be governed by, and construed in accordance with, Hong Kong law.

List of Significant Subsidiaries

Name of Subsidiary	Country of Incorporation	Ownership Interest
China United Network Communications Corporation Limited	China	100%
China Netcom Group Corporation (Hong Kong) Limited	Hong Kong	100%
China Unicom International Limited	Hong Kong	100%

Certification

I, Chang Xiaobing, certify that:

1. I have reviewed this annual report on Form 20-F of China Unicom (Hong Kong) Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 23, 2009

By: /s/ Chang Xiaobing

Name: Chang Xiaobing

Title: Chief Executive Officer

Certification

I, Tong Jilu, certify that:

1. I have reviewed this annual report on Form 20-F of China Unicom (Hong Kong) Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 23, 2009

By: /s/ Tong Jilu

Name: Tong Jilu

Title: Chief Financial Officer

Certification

Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. § 1350, the undersigned officer of China Unicom (Hong Kong) Limited (the “Company”), hereby certifies that the Company’s Annual Report on Form 20-F for the year ended December 31, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 23, 2009

By: /s/ Chang Xiaobing

Name: Chang Xiaobing

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C § 1350 and will not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section.

Certification

Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. § 1350, the undersigned officer of China Unicom (Hong Kong) Limited (the “Company”), hereby certifies that the Company’s Annual Report on Form 20-F for the year ended December 31, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 23, 2009

By: /s/ Tong Jilu

Name: Tong Jilu

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C § 1350 and will not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section.