Notes to the Consolidated Financial Statements

(All amounts in RMB thousands unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom 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 8 February 2000. The principal activities of the Company are investment holding and the Company's subsidiaries are principally engaged in the provision of GSM and CDMA cellular, long distance, data and Internet services in the PRC. The GSM and CDMA business hereinafter collectively refer 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 22 June 2000 and the American Depositary Shares of the Company were listed on the New York Stock Exchange on 21 June 2000.

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). The majority of the equity interests in Unicom BVI is owned by China United Telecommunications Corporation Limited ("A Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"). The directors of the Company consider Unicom Group to be the ultimate holding company.

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 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of buildings, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss. They have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These accounting standards differ from that used in the preparation of statutory financial statements for PRC statutory reporting purposes, which are based on the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

The principal adjustments made to conform to HKFRS include the following:

- reversal of revaluation surplus and related depreciation and amortisation charges arising from the revaluation of assets performed by independent valuers for the purpose of reporting to relevant PRC government authorities;
- additional capitalisation of borrowing costs;
- capitalisation of the direct costs associated with the acquisition of subsidiaries;
- recognition of employee share-based compensation costs;
- reversal of goodwill amortisation and recognition of negative goodwill in opening retained earnings;
- separation of the conversion option of convertible bonds from the host debt contract and accounting for as a derivative component at fair value through profit or loss;
- capitalisation and amortisation of upfront non-refundable revenue and the related direct incremental costs for activating cellular subscribers; and
- provision for deferred taxation on HKFRS adjustments.

As at 31 December 2006, the current liabilities of the Group had exceeded the current assets by approximately RMB29.9 billion (2005: RMB35.6 billion). Taking into account of available sources of financing and continuous net cash inflows from operating activities, 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 31 December 2006 have been prepared under the going concern basis.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company'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.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

(a) Amendments, new standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- HKFRS 7, Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments;

- HKFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. This standard does not have any impact on the classification and presentation of the Group's consolidated financial statements;

- Amendment to HKAS 1, Presentation of financial statements - Capital Disclosure (effective for annual periods beginning on or after 1 January 2007). The amendment introduces new disclosures for managing capital. This amendment does not have any impact on the classification and presentation of the Group's consolidated financial statements;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. HK(IFRIC)-Int 8 does not have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group's entities have not changed the terms of their contracts, HK(IFRIC)-Int 9 does not have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

(a) Amendments, new standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HK(IFRIC)-Int 11, Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. HK(IFRIC)-Int 11 also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. HK(IFRIC)-Int 11 is not expected to have a material impact on the Group's consolidated financial statements.

(b) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

- HK(IFRIC)-Int 7, Applying the restatement approach under HKAS 29, Financial reporting in hyperinflationary economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 12, Service concession arrangements (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. As the Group does not have any public-to-private service concession arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

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 de-consolidated from the date that control ceases.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 in a business combination 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 net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed when necessary to ensure consistency with the policies adopted by the Group.

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 income statements as an allocation of the total profit or loss for the year between minority interests 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 profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 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. 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, income tax expense and unrealised loss on changes in fair value of derivative component of convertible bonds, whilst unallocated income represents interest income that cannot be identified to different operating segments. Segment assets consist primarily of property, plant and equipment, other assets, prepayments, inventories, receivables and operating cash. Segment liabilities primarily comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

2.4 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 Renminbi ("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 recognised in the income statement.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, Plant and Equipment

Buildings are stated at valuation. Independent valuations are performed periodically with the last valuation being performed on values as of 31 August 2006. In the intervening years, the directors review the carrying value of buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in the values of the buildings is credited to the revaluation reserve; any decrease is first offset against the increase on earlier valuations recorded in the revaluation reserve, in respect of the same asset and is thereafter charged to the income statement. Upon the disposal of revalued buildings, the realised portion of the revaluation reserve is transferred from the revaluation reserve to retained earnings.

Other property, plant and equipment, comprising leasehold improvements, plant, telecommunications equipment, office furniture, fixtures and others are stated at historical cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable at the time they 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 derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

	Depreciable life	Residual rate
Buildings	10 – 40 years	3%
Telecommunications equipment	3 – 15 years	3%
Office furniture, fixtures and others	5 – 15 years	3%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, Plant and Equipment (continued)

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.

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.

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 2.8).

The gain or loss on disposal of a property, plant or equipment is the differences between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

2.6 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 subsidiary 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. The Group has allocated goodwill to the GSM Business and the CDMA Business which it operates (Note 2.8).

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Other Assets

Other assets mainly represent (i) capitalised direct incremental costs for activating GSM and CDMA subscribers; (ii) customer acquisition costs under contractual CDMA subscriber packages; (iii) computer software; (iv) prepaid rentals for premises and leased lines; and (v) prepayment for lease of land.

Capitalised 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 amortised over the expected customer service periods. The expected customer service periods are estimated based on the expected stabilised churn rates of subscribers.

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 amortised 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.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Long-term prepaid rental for premises and leased lines are amortised using a straight-line method over the lease period.

Long-term prepayments for lease of land are amortised over the period of the lease on a straight-line basis.

2.8 Impairment of Assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and 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.

2.9 Inventories

Inventories, which principally comprise handsets, SIM cards, UIM cards and accessories, are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Accounts Receivable and Other Receivables

Accounts receivable and other receivables are recognised at fair value, 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. The carrying amount of the assets is reduced through the use of a provision account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.11 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.

2.12 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 three months or less.

2.13 Convertible Bonds

As the functional currency of the Group is RMB, the conversion of the convertible bonds denominated in Hong Kong Dollars will 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 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, is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs. The remainder of the proceeds is allocated to debt element of the bonds, net of transaction costs, and is recorded as the liability component. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. Interest expense is calculated using the effective interest method by applying the effective interest rate to the liability component through the maturity date.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the income statement.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Deferred Revenue and Advances from Customers

(a) Deferred revenue

Deferred revenue represents upfront non-refundable revenue, including connection fee and receipts from activation of SIM/UIM cards relating to GSM and CDMA businesses, which are deferred and recognised over the expected service period.

(b) Advances from customers

Advances from customers are amounts paid by customers for GSM and CDMA prepaid cards, GSM and CDMA prepaid service fees, Internet protocol ("IP") telephone cards and other calling cards 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 recognised as revenues upon the rendering of services.

2.15 Employee Benefits

(a) Retirement benefits

For defined contribution plan, 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 recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a reduction in the future payments is available.

(b) Housing benefits

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred.

(c) 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 recognised 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). Non-market vesting conditions are included in assumptions about 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 become exercisable. The Group recognises the impact of the revision of original estimates, if any, in the income statement, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Provisions

Provisions are recognised 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 recognised 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 recognised as interest expense.

2.17 Revenue Recognition

(a) Revenue comprises the fair value of the consideration received or receivable for the services and sales of 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.

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and when the revenue and cost can be measured reliably, on the following basis:

- usage fees are recognised when the service is rendered;
- monthly fees are recognised as revenue in the month during which the services are rendered;
- revenue from telephone cards, which represent service fees received from customers for telephone services, is recognised when the related service is rendered upon actual usage of the telephone cards by customers;
- leased lines and indefeasible rights of use ("IRU") are treated as operating leases with rental income recognised on a straight-line basis over the lease term, except for the lease of specific and identified network assets that transfer substantially all the risks and rewards incidental to the ownership to the lessee, which is recognised as capacity sales;
- valued-added services revenue which mainly represents revenue from the provision of services such as short message, cool ringtone, CDMA1X wireless data services and secretarial services to subscribers are recognised when service is rendered; and
- sales of telecommunications products, which mainly represent handsets and accessories, are recognised when title has been passed to the buyers.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue Recognition (continued)

(b) Interest income

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

(c) Dividend income

Dividend income is recognised when the rights to receive payment is established.

2.18 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) are expensed in the income statement 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 capitalised at the lease's commencement 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 implicits in the lease payment is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.19 Costs under Subscriber Point Reward Program

The estimated costs of providing telecommunications services or providing non-cash gifts under the subscriber point reward program are calculated based on the value of bonus points awarded to subscribers and are recognised as selling and marketing expenses when subscribers accumulate bonus points. The value of a bonus point and the criteria for awarding bonus points are established by the Group at the inception of the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 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 capitalised as part of the cost of that asset. Capitalisation 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 capitalised 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 capitalisation 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 capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation 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 capitalised during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varies from 3.60% to 5.83% for the year ended 31 December 2006 (2005: 3.60% to 5.58%).

2.21 Taxation

(a) Income tax

Income tax is provided on the basis of income for statutory financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for tax purposes.

(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 profit 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Related Parties

Entities are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Entities are also considered to be related if they are subject to common control or common significant influence.

2.24 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised.

2.25 Earnings per Share and per American Depositary Share ("ADS")

Basic earnings per share have been computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share have been computed by dividing the profit 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 have been 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 in headquarter, following the overall directions 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 businesses are mainly conducted in RMB, except for certain subsidiaries located in Hong Kong, Macau and United States of America ("USA"). Dividends to equity holders are declared in RMB and paid in HK dollars. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and HK dollars. As at 31 December 2006, the Group had approximately USD1.0 billion bank loans and a USD1.3 billion convertible bond recorded in the financial statements. The Group also had cash and cash equivalents and short-term bank deposits of USD501 million and HKD664 million in total. The Group has not used any forward contracts or foreign currency swap arrangements to hedge its exposure to currency risk. However, the Group's finance department in headquarter continuously monitors the foreign exchange risk regarding loans and deposits denominated in foreign currency.

(ii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits. Apart from this, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term bank loans and liability component of convertible bonds. Bank loans issued at floating rates expose the Group to cash flow interest-rate risk. Bank loans, short-term bonds and liability component of convertible bonds issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2006, RMB315 million (2005: RMB7,442 million) of long-term bank loans and RMB7,087 million (2005: RMB9,866 million) of short-term bonds and RMB7,117 million of liability component of convertible bonds (2005: Nil) were at fixed rates, while RMB7,809 million (2005: RMB9,684 million) of long-term bank loans were at floating rates.

The Group does not expect any significant changes in interest rates which might materially affect the Group's results of operations.

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The extent of the Group's credit exposure is mainly represented by the aggregate balance of accounts receivable for services and amounts due from related parties and other operators.

The Group has policies that limit the amount of credit exposure to accounts receivable for services and amounts due from related parties and other operators. The normal credit period granted by the Group is on average 30 days from the date of invoice. The utilisation of credit limits is regularly monitored by the Group.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available financing, including short-term bank loans and issuance of bonds. Due to the dynamic nature of the underlying businesses, the Group's finance department in headquarter maintains adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

3.2 Fair value estimation

The estimate of the fair value of the conversion option of the convertible bonds, that is separated from the host debt contract and accounted for as a derivative liability, is determined by using valuation techniques. The Group selects an appropriate valuation method and makes assumptions with reference to market conditions existing at each balance sheet date. Please refer to Note 17 for details.

The carrying value of trade receivables (net of impairment provision) and payable 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 will, by definition, may not 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 to residual values over the estimated useful lives. 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 realisation 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 of anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change. The cost or revalued amount and accumulated depreciation of property, plant and equipment as at 31 December 2006 amounted to RMB205.8 billion (2005: RMB186.7 billion) and RMB94.4 billion (2005: RMB74.3 billion), respectively.

(b) 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 2.8. 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 a significant change in management's assumptions and the estimated recoverable amounts of the non-current assets, the Group's future results would be affected.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) Provision for doubtful debts

Accounts receivables are stated at costs, less provision for doubtful debts. 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 at 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' credibility and collection trends. For general subscribers of Cellular, Long Distance, Data and Internet businesses, the Group makes a full provision for receivables aged over 3 months, which is consistent with its credit policy with respect to relevant subscribers.

The Group's estimates described above are based on past experience, subscribers' credibility 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.

(d) Provision for subscriber point reward program

The Group has implemented a subscriber point reward program, which is a bonus point based scheme that rewards subscribers according to their service consumption, loyalty and payment history. The cost of the subscriber point reward program is charged to the income statement as "selling and marketing" expenses, instead of a reduction of revenue. The estimated liability is recognised based on (i) the value of each bonus point awarded to subscribers, and (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. If subscribers redeem rewards or their entitlements expire, the provision is adjusted accordingly. The Group has recognised a liability for this program amounting to RMB556 million as at 31 December 2006 (2005: RMB337 million). As the Group has not had much historical incentive redemption experience in the past, the Group may need to re-assess the method for accruing for the potential bonus point liability when there is a more stabilised and reliable historical redemption statistics in future.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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 recognises 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 the evaluation of temporary differences, the Group has assessed the likelihood that the deferred taxes could be recovered. Major deferred tax components relate to interest on loans from China-China-Foreign ("CCF") joint ventures, loss arising from terminations of CCF arrangements (Note 9(g)), provisions for doubtful debts and write-down of inventory to net realisable value and additional depreciation deductible for tax purposes. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to RMB0.31 billion as at 31 December 2006 (2005: RMB0.34 billion). Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from the 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.

(f) Fair value of conversion option

On 5 July 2006, the Company issued a zero coupon convertible bonds with an aggregate principal amount of USD1 billion. The three-year convertible bonds was issued with a conversion price of HKD8.63 and will mature on 5 July 2009. The embedded conversion option has been separated from the host debt contract and accounted for as a derivative liability carried at fair value through profit or loss (Note 17). The fair value of this conversion 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 each balance sheet date. The valuation model requires the input of subjective assumptions, including the volatility of share price, stock closing price, dividend yield, risk free rate, and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. For the year ended 31 December 2006, the unrealised loss resulting from changes in fair value of the conversion option of the convertible bonds was approximately RMB2.4 billion.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the entity's accounting policies

(a) Capitalisation of CDMA customer acquisition costs

The Group has been operating the CDMA business since the beginning of 2002. In order to accelerate the development of the CDMA business and subscriber growth, the Group offers certain promotional packages. As part of the contractual arrangements with certain CDMA contractual subscribers under these special promotional packages, CDMA handsets were provided to the subscribers for their use at no additional charge during the specified contract period ranging from 6 months to 2 years. In return, the subscribers are required to incur a minimum amount of service fees during the contract period. If the contractual subscribers can fulfill the minimum contract spending amounts by the end of the contract period, they will not be obliged to repay the remaining costs of the CDMA handsets given for their use. In addition, to secure contract performance, these subscribers are required under their contracts to (1) prepay certain amounts of service fees or deposits, (2) maintain a bank deposit in one of the designated commercial banks to secure their minimum contract amounts, or (3) provide a guarantor who will compensate the Group for any loss in the event of the subscriber's non-performance of related contractual obligations.

The Group considers the costs of the CDMA handsets provided to contractual subscribers under these promotional packages as customer acquisition costs for the development of these new CDMA contractual subscribers. Such customer acquisition costs are deferred to the extent expected to be recoverable, and amortised over the contractual periods (not exceeding two years), over which future economic benefits are expected to flow to the Group in the form of minimum contract revenue.

The Group determined its accounting policy for capitalisation of customer acquisition costs of contractual CDMA subscribers after a careful evaluation of specific facts and circumstances, and believes that the capitalisation of such costs is appropriate because future economic benefits are expected to flow to the Group in the form of future contractual revenues, taking into consideration (1) the historically high ARPUs and low churn rate, default or bad debt rates of these subscribers; (2) the Group's established procedures in and the relative low cost of enforcement of contracts in default; and (3) the existence of specified contract periods with minimum contract spending amounts and built-in contractual safeguarding measures such as non-refundable prepayments, bank deposits, and guarantees received, as well as penalty clauses imposed on subscribers.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the entity's accounting policies (continued)

(a) Capitalisation of CDMA customer acquisition costs (continued)

Therefore, the Group believes that the customer acquisition costs are recoverable from future revenue to be derived from these promotional packages, and the capitalisation and amortisation of these customer acquisition costs is an appropriate accounting policy. Furthermore, the Group continuously assesses and evaluates the recoverability of these customer acquisition costs, based on detailed review of historical subscriber churn rates and estimated default rate. Based on the Group's current assessment and evaluation, the Group believes that there is no significant problem in recovering the carrying amounts of the customer acquisition costs as at the balance sheet date.

The Group has made the above recoverability assessments based on the current legal and operating environment relating to the subscribers' contract performance and other information currently available. Actual results may differ significantly from the current situation and the Group's current estimates. If the situation changes significantly in the future, the Group may need to accelerate the amortisation of customer acquisition costs based on conditions at that time.

(b) Recognition of upfront non-refundable revenue and direct incremental costs

The Group capitalises and amortises 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 capitalised and amortised over the same expected customer service period. The Group only capitalises 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 income statement immediately.

The expected customer service period for the cellular business is estimated based on the expected stabilised 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 stabilised 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 direct incremental costs and our deferred revenue would also change.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the entity's accounting policies (continued)

(c) Lease of CDMA network capacity

Pursuant to a CDMA lease agreement signed by the Group and Unicom Group's wholly-owned subsidiary, Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon") in 2002 ("Original CDMA Lease Agreement"), Unicom New Horizon agreed to lease the capacity of the CDMA network to the Group.

Unicom New Horizon has the legal ownership of the CDMA network, is directly responsible for the planning, financing and construction of the CDMA network, and directly enters into all contracts with suppliers and constructors. The Group believes it only bears the risks associated with the operation of the CDMA business during the relevant leasing periods and is free from any ownership risks of the CDMA network and the risks and rewards of ownership of the leased assets rest substantially with the lessor.

At the inception of the Original CDMA Lease Agreement, there was a high degree of uncertainty related to the market condition and operating results of the CDMA business. It was highly uncertain whether the Group would continue to lease the network in the future or to estimate the future network capacity to be leased. The Group was also unable to determine whether or not they would exercise the purchase option in future. Given these uncertainties and due to the fact that the risks associated with the ownership of the CDMA assets substantially remained with Unicom Group and Unicom New Horizon, the Group accounted for the leasing of the CDMA network as operating leases for the initial three-year lease period, so as to reflect the respective rights and obligations of the relevant parties to the Original CDMA Lease Agreement.

On 24 March 2005, the Group entered into another CDMA Lease Agreement ("2005 CDMA Lease Agreement") with Unicom Group and Unicom New Horizon to replace the Original CDMA Lease Agreement. Key terms of the 2005 CDMA Lease Agreement, including exclusive operating rights and purchase option, are substantially similar to those contained in the Original CDMA Lease Agreement except that the CDMA lease has an initial term of two years and the lease fee of the CDMA Network is to be determined on the basis of the audited CDMA business income. Given that the uncertainties continued, the Group considered the risks associated with the ownership of the CDMA assets still substantially remain with Unicom Group and Unicom New Horizon, and has concluded the leasing of the CDMA network continues to be an operating lease.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the entity's accounting policies (continued)

(c) Lease of CDMA network capacity (continued)

On 26 October 2006, the Group entered into a new CDMA Lease Agreement (the "2006 CDMA Lease Agreement") with Unicom Group and Unicom New Horizon to renew the 2005 CDMA Lease Agreement effective from 1 January 2007. Pursuant to the 2006 CDMA Lease Agreement, the initial lease period is for one year, renewable for an additional one-year term at the Group's option. The lease fee of the CDMA network for 2007 and 2008 is as follows:

- 31% of the audited CDMA business income of the lessee for each of the years 2007 and 2008; or
- 30% of the audited CDMA business income of the lessee for the year 2007 or 2008, where the audited CDMA business profit before taxation of the lessee for the relevant year is less than the audited CDMA business profit before taxation of the lessee for the year 2006 as set out in the relevant annual audited financial statements of the lessee.

Under the 2006 CDMA Lease Agreement, the annual lease fee of the CDMA network shall not be less than a certain minimum level (the "Minimum Lease Fee") regardless of the amount of CDMA business income for that year. The Minimum Lease Fee for 2007 shall be 90% of the total amount of lease fee paid by the Group to Unicom New Horizon for 2006 pursuant to the 2005 CDMA Lease Agreement. The Minimum Lease Fee for 2008 shall be 90% of the total amount of lease fee paid by the Group to Unicom New Horizon for 2007 pursuant to the 2006 CDMA Lease Agreement. The level of lease fee under the 2006 CDMA Lease Agreement has been set by reference to the Group's view of the industry trends, including factors such as CDMA subscribers and average revenue per user per month levels.

Under the 2006 CDMA Lease Agreement, the Group believes the uncertainties of the CDMA business continue to exist, particularly due to the fact that (i) the service revenue of CDMA business was stagnant in 2006; (ii) the uncertainty of the future success of CDMA business arising from keen market competition; and (iii) the uncertainty in the future changes in technology, technological standards and government regulatory environment. Moreover, at the inception of the 2006 CDMA Lease Agreement, the Group was still unable to determine whether it would renew the lease after the initial one-year lease term or whether it would exercise the purchase option. As a result, the Group considered the risks associated with the ownership of the CDMA assets still substantially remain with Unicom Group and Unicom New Horizon, and has concluded the leasing of the CDMA network will still be accounted for as an operating lease.

At the beginning of each lease term, the Group will reassess the appropriate classification based on the relevant factors and circumstances at that time. Based on the above accounting judgment made, the operating lease expense has been recorded in the income statement, and the carrying value of the CDMA assets and the related liabilities have not been reflected in the balance sheets. For the year ended 31 December 2006, the lease expense of approximately RMB8.08 billion (2005: RMB7.92 billion) was recorded under leased lines and network capacities in the income statement.

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION

The Group comprises four 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 below:

- GSM Business — the provision of GSM telephone and related services;
- CDMA Business — the provision of CDMA telephone and related services, through a leasing arrangement for CDMA network capacity from Unicom New Horizon;
- Data and Internet Business — the provision of domestic and international data, Internet and other related services; and
- Long Distance Business — the provision of domestic and international long distance and other related services.

The Group's primary measure of segment results is based on segment profit or loss before income tax. Unallocated costs primarily represent corporate expenses, income tax expense and unrealised loss on changes in fair value of derivative component of convertible bonds, whilst unallocated income represents interest income that cannot be identified to different operating segments.

5. SEGMENT INFORMATION (continued)

5.1 Business Segments

	2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover)							
Usage fee	33,609,094	14,695,758	1,770,321	64,337	—		50,139,510
Monthly fee	7,370,440	5,025,422	—	—	—		12,395,862
Interconnection revenue	4,914,964	1,732,360	92,140	424,792	—		7,164,256
Leased lines rental	—	—	473,708	574,728	—		1,048,436
Value-added service revenue	11,543,343	5,314,118	—	—	—		16,857,461
Other revenue	1,852,580	525,484	39,147	4,565	—		2,421,776
Total service revenue	59,290,421	27,293,142	2,375,316	1,068,422	—		90,027,301
Sales of telecommunications products	8,174	4,257,118	1,900	—	—		4,267,192
Total revenue from external customers	59,298,595	31,550,260	2,377,216	1,068,422	—		94,294,493
Intersegment revenue	—	—	2,978,468	1,783,015	—	(4,761,483)	—
Total revenue	59,298,595	31,550,260	5,355,684	2,851,437	—	(4,761,483)	94,294,493
Leased lines and network capacities	(235,033)	(8,160,189)	(303,858)	(64,785)	—		(8,763,865)
Interconnection charges	(9,498,433)	(3,449,676)	(481,528)	(927,468)	—	4,761,483	(9,595,622)
Depreciation and amortisation	(18,614,663)	(717,828)	(2,419,598)	(670,191)	(532)		(22,422,812)
Employee benefit expenses	(4,136,669)	(1,529,543)	(527,358)	(272,653)	(182,476)		(6,648,699)
Selling and marketing	(9,336,325)	(9,007,838)	(683,402)	(224,078)	(61)		(19,251,704)
General, administrative and other expenses	(9,481,491)	(2,849,754)	(797,130)	(259,900)	(27,293)		(13,415,568)
Cost of telecommunications products sold	(188,239)	(4,735,533)	(6,197)	(19)	—		(4,929,988)
Finance costs	(475,456)	(46,359)	(35,512)	(54,229)	(467,026)	424,362	(654,220)
Interest income	122,601	6,846	12,483	2,323	539,149	(424,362)	259,040
Other gains (loss) – net	23,474	1,027	246	(3,409)	15		21,353
	7,478,361	1,061,413	113,830	377,028	(138,224)		8,892,408

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Unrealised loss on changes in fair value of derivative component of convertible bonds							(2,396,592)
Segment profit (loss) before income tax	7,478,361	1,061,413	113,830	377,028	(138,224)		6,495,816
Income tax expenses							(2,763,885)
Profit for the year							3,731,931
Attributable to:							
Equity holders of the Company							3,731,824
Minority interest							107
							3,731,931
Other information:							
Provision for doubtful debts	1,124,113	457,942	106,883	52,827	—		1,741,765
Capital expenditures for segment assets (a)	10,577,010	—	2,500,814	2,640,789	5,827,151		21,545,764

	31 December 2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	107,288,975	7,722,626	8,300,155	16,810,768	56,477,257	(50,161,795)	146,437,986
Total segment liabilities	38,594,177	7,666,939	2,801,914	3,673,741	14,289,557		67,026,328

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2005						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover)							
Usage fee	32,077,305	16,726,678	2,540,574	599,251	—		51,943,808
Monthly fee	6,840,720	4,905,538	—	—	—		11,746,258
Interconnection revenue	3,466,067	1,398,577	102,989	434,577	—		5,402,210
Leased lines rental	—	—	393,659	489,969	—		883,628
Value-added service revenue	7,966,629	4,115,542	—	—	—		12,082,171
Other revenue	1,784,807	430,601	12,745	776	—		2,228,929
Total service revenue	52,135,528	27,576,936	3,049,967	1,524,573	—		84,287,004
Sales of telecommunications products	3,174	2,743,337	7,226	8,090	—		2,761,827
Total revenue from external customers	52,138,702	30,320,273	3,057,193	1,532,663	—		87,048,831
Intersegment revenue	—	—	2,553,242	1,189,531	—	(3,742,773)	—
Total revenue	52,138,702	30,320,273	5,610,435	2,722,194	—	(3,742,773)	87,048,831
Leased lines and network capacities	(253,790)	(8,035,534)	(369,644)	(88,349)	—		(8,747,317)
Interconnection charges	(7,207,123)	(3,345,180)	(600,462)	(962,378)	—	3,742,773	(8,372,370)
Depreciation and amortisation	(17,315,209)	(614,297)	(1,886,178)	(551,045)	(1,452)		(20,368,181)
Employee benefit expenses	(3,550,780)	(1,176,502)	(492,376)	(297,160)	(99,494)		(5,616,312)
Selling and marketing	(7,546,848)	(11,308,449)	(1,386,790)	(315,791)	—		(20,557,878)
General, administrative and other expenses	(8,054,364)	(2,537,950)	(867,670)	(259,705)	(21,871)		(11,741,560)
Cost of telecommunications products sold	(80,674)	(3,477,893)	(16,315)	(434)	—		(3,575,316)
Finance costs	(943,214)	(42,368)	(37,043)	(66,787)	(223,682)	213,773	(1,099,321)
Interest income	64,626	8,958	2,915	3,807	229,663	(213,773)	96,196
Other gains (loss) – net	25,591	9,043	65	229	(3)		34,925
	7,276,917	(199,899)	(43,063)	184,581	(116,839)		7,101,697

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2005						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Unrealised loss on changes in fair value of derivative component of convertible bonds							—
Segment profit (loss) before income tax	7,276,917	(199,899)	(43,063)	184,581	(116,839)		7,101,697
Income tax expenses							(2,170,411)
Profit for the year							4,931,286
Attributable to:							
Equity holders of the Company							4,931,052
Minority interest							234
							4,931,286
Other information:							
Provision for doubtful debts	867,154	458,161	139,327	33,868	—		1,498,510
Capital expenditures for segment assets (a)	7,333,030	—	1,962,796	2,162,637	6,154,335		17,612,798

	31 December 2005						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	107,723,037	4,087,906	7,518,912	17,794,349	55,667,580	(50,161,795)	142,629,989
Total segment liabilities	45,706,440	5,620,722	2,519,018	4,973,134	7,523,596		66,342,910

(a) Capital expenditures classified under "Unallocated amounts" represent capital expenditures on common facilities, which benefit all business segments.

5. SEGMENT INFORMATION (continued)

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.

In addition, although the Group has its corporate headquarter 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 2006 and 2005, substantially all capital expenditures were incurred 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.

(All amounts in RMB thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	2006						2005
	Buildings	Tele-communications equipment	Office furniture, fixtures and others	Leasehold improvements	Construction-in-progress	Total	Total
Cost or valuation:							
Beginning of year	13,614,937	144,752,704	8,370,669	1,120,171	18,826,688	186,685,169	173,835,655
Revaluation surplus	200,330	—	—	—	—	200,330	—
Additions	566,212	348,077	139,036	—	20,492,439	21,545,764	17,612,798
Transfer from CIP	737,505	23,240,505	1,532,868	477,166	(25,988,044)	—	—
Reclassification to other assets	(528,428)	—	—	—	—	(528,428)	(4,194,413)
Disposals	(22,296)	(1,478,238)	(425,924)	(214,304)	—	(2,140,762)	(568,871)
End of year	14,568,260	166,863,048	9,616,649	1,383,033	13,331,083	205,762,073	186,685,169
Representing:							
At cost	2,036,229	166,863,048	9,616,649	1,383,033	13,331,083	193,230,042	184,314,396
At valuation	12,532,031	—	—	—	—	12,532,031	2,370,773
	14,568,260	166,863,048	9,616,649	1,383,033	13,331,083	205,762,073	186,685,169
Accumulated depreciation:							
Beginning of year	3,110,261	66,942,910	3,502,469	741,937	14,307	74,311,884	55,343,535
Charge for the year	454,958	19,524,750	1,753,763	271,990	—	22,005,461	19,931,501
Reclassification to other assets	—	—	—	—	—	—	(511,266)
Disposals	(16,473)	(1,418,541)	(287,459)	(214,304)	—	(1,936,777)	(451,886)
End of year	3,548,746	85,049,119	4,968,773	799,623	14,307	94,380,568	74,311,884
Net book value:							
End of year	11,019,514	81,813,929	4,647,876	583,410	13,316,776	111,381,505	112,373,285
Beginning of year	10,504,676	77,809,794	4,868,200	378,234	18,812,381	112,373,285	118,492,120

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	The Company			
	2006			2005
	Tele-communications equipment	Office furniture, fixtures and others	Total	Total
Cost :				
Beginning of year	52,404	8,531	60,935	62,189
Additions	—	388	388	238
Disposals	(1,612)	(859)	(2,471)	(1,492)
End of year	50,792	8,060	58,852	60,935
Accumulated depreciation:				
Beginning of year	9,557	7,718	17,275	12,742
Charge for the year	3,453	532	3,985	4,914
Disposals	(256)	(798)	(1,054)	(381)
End of year	12,754	7,452	20,206	17,275
Net book value:				
End of year	38,038	608	38,646	43,660
Beginning of year	42,847	813	43,660	49,447

For the year ended 31 December 2006, interest expense of approximately RMB423 million (2005: RMB683 million) was capitalised to construction-in-progress.

During 2006, the Group engaged an independent property valuation firm to undertake a valuation of the buildings of the Group as at 31 August 2006 ("2006 Revaluation"), using the replacement cost or open market value approach, as appropriate. Based on the 2006 Revaluation, an additional revaluation surplus of approximately RMB200 million was recognised. The revaluation surplus net of the related deferred income tax of approximately RMB105 million (Note 9) was credited to revaluation reserve in shareholders' equity. The accumulated revaluation surplus on the buildings resulting from all previous and current valuations of the buildings as of 31 December 2006 was RMB272 million. As of 31 December 2006, the carrying value of buildings would have been approximately RMB10,701 million (2005: RMB10,379 million) had they been stated at historical cost less accumulated depreciation. The directors considered the fair values of these buildings were not materially different from their carrying values as of 31 December 2006. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB8.80 million for 2006 (2005: RMB8.80 million).

Telecommunications equipment held under finance leases represents wireless public phone equipment. As at 31 December 2006, net book value of wireless public phone equipment under finance leases amounted to approximately RMB231 million (2005: RMB354 million) (Note 18).

(All amounts in RMB thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2006, the Group recognised loss on disposal of property, plant and equipment of approximately RMB145 million (2005: RMB25 million).

For comparative purposes, the carrying value of land use rights underlying the buildings acquired from third parties amounting to approximately RMB3.7 billion was reclassified from "Property, plant and equipment" to "Other assets" in the 2005 comparative consolidated balance sheet.

7. GOODWILL – GROUP

	The Group	
	2006	2005
Cost:		
Goodwill arising from acquisitions	**3,143,983**	3,143,983

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. in 2002 and 2003 respectively represented the excess of the purchase consideration over the Group's share of the fair values of the separately identifiable net assets acquired.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segments. The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management, including expected profit margins, growth rates and the applicable discount rates. Management determined budgeted profit margins 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 rates used are pre-tax and reflect specific risks relating to the business. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2006 and 2005.

8. OTHER ASSETS – GROUP

	Note	The Group 2006	2005
Direct incremental costs for activating cellular subscribers	(a)	**2,243,384**	3,191,853
Customer acquisition costs of contractual CDMA subscribers	4.2(a), (b)	**1,643,623**	2,416,224
Long-term prepayment for lease of land	(c), 6	**4,867,840**	4,189,326
Purchased software	(d)	**677,187**	276,803
Prepaid rental for premises and leased lines		**1,005,514**	858,661
Others	(d)	**739,021**	568,863
		11,176,569	11,501,730

(a) For the year ended 31 December 2006, amortisation of direct incremental costs for activating GSM and CDMA subscribers amounted to RMB1,817 million (2005: RMB1,582 million) (Note 24), which has been included in “selling and marketing” expenses.

(b) For the year ended 31 December 2006, amortisation of the customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB4,205 million (2005: RMB5,948 million) (Note 24) which was recorded in “selling and marketing” expenses. As at 31 December 2006, the carrying amount of unamortised customer acquisition costs of contractual CDMA subscribers totaled approximately RMB2,102 million (2005: RMB2,944 million), with approximately RMB1,644 million (2005: RMB2,416 million) recorded in “other assets” (for contracts expiring over 1 year) and approximately RMB458 million (2005: RMB528 million) recorded in “prepayments and other current assets” (for contracts expiring within 1 year) (Note 12).

(c) The Group’s long-term prepayment for lease of land represents prepaid operating lease payments for land use rights in Mainland China and their net book value is analysed as follows:

	The Group 2006	2005
Held on:		
Leases of between 10 to 50 years	**4,833,011**	4,174,864
Leases of less than 10 years	**34,829**	14,462
	4,867,840	4,189,326

For comparative purposes, the carrying value of land use rights underlying the buildings acquired from third parties was reclassified from “Property, plant and equipment” to “Other assets” in the 2005 comparative consolidated balance sheet. Please refer to Note 6 for details.

For the year ended 31 December 2006, the long-term prepayment for lease of land expensed in the income statement amounted to RMB171.0 million (2005: RMB28.4 million), which was recorded in “General, administrative and other expenses”.

(All amounts in RMB thousands unless otherwise stated)

8. OTHER ASSETS – GROUP (continued)

(d) For the year ended 31 December 2006, the amortisation of purchased software and others of other assets amounted to approximately RMB417 million (2005: RMB437 million) (Note 24).

9. TAXATION – GROUP

Provision for taxation represents:

	The Group	
	2006	2005
Provision for income tax on the estimated taxable profits for the year		
- Hong Kong	**4,817**	1,063
- Outside Hong Kong	**2,838,365**	2,033,457
	2,843,182	2,034,520
Deferred taxation	**(79,297)**	135,891
	2,763,885	2,170,411

(a) The Company did not have any assessable income sourced from Hong Kong for the years ended 31 December 2006 and 2005.

(b) China Unicom International Limited ("Unicom International", a subsidiary of the Company) assessed its income tax liability in Hong Kong using the tax rate of 17.5% (2005: 17.5%). The income tax liability of Unicom International amounted to approximately RMB4.82 million for the year ended 31 December 2006 (2005: RMB1.06 million).

(c) China Unicom (Macau) Company Limited ("Unicom Macau", a subsidiary of the Company) assessed its income tax liability in Macau, using progressive tax rates from 3% to 12%. There is no Macau income tax liability of Unicom Macau for the years ended 31 December 2006 and 2005 as there were no assessable profits in both years.

(d) For the year ended 31 December 2006, Unicom Huasheng Telecommunications Technology Company Limited ("Unicom Huasheng", a subsidiary of the Company) and its branches are subject to income tax at the statutory enterprise income tax rate of 33% in Mainland China. The income tax liabilities of Unicom Huasheng and its branches were assessed separately by relevant local tax authorities.

9. TAXATION – GROUP (continued)

(e) Various provincial/municipal branches of China Unicom Corporation Limited ("CUCL", a subsidiary of the Company) were granted preferential tax treatment by relevant tax authorities to assess their enterprise income tax at the rates of 13% or 18% in mainland China for the years ended 31 December 2006 and 2005. The remaining provincial branches were assessed at the standard tax rate of 33%.

Reconciliation between applicable statutory tax rate and the effective tax rate:

		The Group	
	Note	**2006**	2005
Mainland China statutory tax rate of 33%		**33.0%**	33.0%
Non-deductible expenses		**1.7%**	1.9%
Unrealised loss on changes in fair value of derivative component of convertible bonds		**12.2%**	—
Non-taxable income			
- Connection fee		**(1.3%)**	(1.2%)
- Interest income		**(0.6%)**	(0.1%)
- Line leasing income		**—**	(0.1%)
Impact of PRC preferential tax rates		**(2.3%)**	(2.2%)
Investment tax credits for domestic equipment	(f)	**(0.2%)**	(0.7%)
Effective tax rate		**42.5%**	30.6%

Tax effect of preferential tax rate is as follows:

	2006	2005
Aggregate amount (RMB in millions)	**150**	155
Per share effect (RMB)	**0.012**	0.012

(f) For 2006 and 2005, tax credits represented investment tax credits relating to the additions of certain domestic equipment that were deductible against current income tax.

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION – GROUP (continued)

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 fiscal authority. The offset amounts are as follows:

	The Group	
	2006	2005
Deferred tax assets:		
- Deferred tax asset to be recovered after 12 months	**787,991**	1,004,323
- Deferred tax asset to be recovered within 12 months	**887,636**	737,740
	1,675,627	1,742,063
Deferred tax liabilities:		
- Deferred tax liabilities to be settled after 12 months	**(1,051,774)**	(1,278,531)
- Deferred tax liabilities to be settled within 12 months	**(314,185)**	(128,298)
	(1,365,959)	(1,406,829)
Net deferred tax assets after offsetting	**309,668**	335,234
Deferred tax liabilities that cannot be offset	**(5,879)**	(5,613)

There were no material unrecognised deferred tax assets as at 31 December 2006 and 2005.

The movement of the net deferred tax assets/liabilities is as follows:

	The Group	
	2006	2005
Net deferred tax assets after offsetting :		
- Beginning of year	**335,234**	468,774
- Deferred tax credited/(charged) to the income statement	**79,563**	(133,540)
- Deferred tax charged to equity (Note 6)	**(105,129)**	—
- End of year	**309,668**	335,234
The deferred tax liabilities that can not be offset:		
- Beginning of year	**(5,613)**	(3,262)
- Deferred tax charged to the income statement	**(266)**	(2,351)
- End of year	**(5,879)**	(5,613)

9. TAXATION – GROUP (continued)

Deferred taxation as of year-end represents the taxation effect of the following temporary differences:

		The Group	
	Note	**2006**	2005
Mainland China Enterprises			
Deferred tax assets:			
Interest on loans from CCF joint ventures	(g)	**45,463**	96,012
Loss arising from terminations of CCF Arrangements	(g)	**20,636**	111,003
Provision for doubtful debts		**492,920**	399,590
Write-down of inventories to net realisable value		**32,858**	43,780
Accruals of retirement benefits		**18,137**	4,670
Additional depreciation deductible for tax in future years		**6,315**	12,361
Monetary housing benefits		**12,607**	11,784
Differences on tax basis for the residual value of property, plant and equipment		**—**	10,045
Net amount of deferral and amortisation of upfront non-refundable revenue		**740,429**	891,467
Accruals of expenses not yet deductible for tax purpose		**232,863**	137,279
Others		**73,399**	24,072
		1,675,627	1,742,063
Deferred tax liabilities:			
Net amount of capitalisation and amortisation of direct incremental costs		**(740,429)**	(925,462)
Capitalised interest already deducted for tax purpose		**(520,401)**	(481,367)
Revaluation of buildings (Note 6)		**(105,129)**	—
		(1,365,959)	(1,406,829)
		309,668	335,234
Hong Kong Enterprises			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		**(5,879)**	(5,613)

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION – GROUP (continued)

(g) Prior to 2000, in the process of developing its cellular networks, the GSM Business has entered into cooperation agreements with certain contractual joint ventures (the "CJVs") established in Mainland China. Each CJV was established by one or more Chinese enterprises and one or more foreign parties. The aforementioned cooperation arrangements are referred to as the China-China-Foreign Arrangement (the "CCF Arrangements"). Pursuant to the CCF Arrangements, the CJVs extended funding to the GSM Business for the construction of telecommunications systems and network equipment in Mainland China. Based on the terms of the cooperation agreements, the CCF Arrangements had been accounted for as secured financing arrangements to the GSM Business, and interest had been accrued by the GSM Business based on the funds provided by the CJVs at the then prevailing market borrowing rates. All CCF Arrangements had been terminated in 1999 and 2000, the related loss on the termination of CCF Arrangements was charged to the income statement as incurred. Pursuant to the approval of relevant tax authorities, all the interest costs and the loss on termination of these CCF Arrangements are to be deducted against current taxable income over 7 years. The resulting deferred tax assets were recognised accordingly.

10. INVENTORIES – GROUP

	The Group	
	2006	2005
Handsets	**1,462,210**	1,121,288
Telephone cards	**522,161**	592,490
Others	**349,531**	394,034
	2,333,902	2,107,812

The cost of inventories recognised as expense and included in cost of telecommunications products sold amounted to approximately RMB4,930 million (2005: RMB3,575 million).

For the year ended 31 December 2006, the write-down of inventories to net realisable value amounted to RMB43 million (2005: RMB20 million), which was mainly due to the decline of market values of certain handsets.

11. ACCOUNTS RECEIVABLE, NET – GROUP

	The Group	
	2006	2005
Accounts receivable for GSM services	**3,416,679**	4,021,887
Accounts receivable for CDMA services	**2,264,188**	2,648,504
Accounts receivable for Data and Internet services	**323,369**	522,579
Accounts receivable for Long Distance services	**458,402**	444,010
Sub-total	**6,462,638**	7,636,980
Less: Provision for doubtful debts for GSM services	**(1,841,212)**	(1,821,057)
Provision for doubtful debts for CDMA services	**(905,094)**	(954,185)
Provision for doubtful debts for Data and Internet services	**(77,006)**	(83,711)
Provision for doubtful debts for Long Distance services	**(219,983)**	(229,598)
	3,419,343	4,548,429

The aging analysis of accounts receivable is as follows:

	The Group	
	2006	2005
Within one month	**2,349,963**	2,884,068
More than one month to three months	**906,221**	1,062,895
More than three months to one year	**1,709,954**	1,636,529
More than one year	**1,496,500**	2,053,488
	6,462,638	7,636,980

The normal credit period granted by the Group is on average 30 days from the date of invoice.

There is no significant concentration of credit risk with respect to individual customers' receivables, as the Group has a large number of customers.

Provision for doubtful debts is analysed as follows:

	The Group	
	2006	2005
Balance, beginning of year	**3,088,551**	3,933,507
Provision for the year	**1,741,765**	1,498,510
Written-off during the year	**(1,787,021)**	(2,343,466)
Balance, end of year	**3,043,295**	3,088,551

(All amounts in RMB thousands unless otherwise stated)

12. PREPAYMENTS AND OTHER CURRENT ASSETS

		The Group		The Company	
	Note	**2006**	2005	**2006**	2005
Prepaid rental		**364,622**	322,243	**153**	—
Deposits and prepayments		**732,774**	973,698	**5,284**	3,357
Advances to employees		**154,866**	163,838	**11**	—
Customer acquisition costs of contractual CDMA subscribers	8(b)	**458,095**	527,577	**—**	—
Others		**277,662**	355,111	**5,542**	47,009
		1,988,019	2,342,467	**10,990**	50,366

The aging analysis of prepayments and other current assets is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Within one year	**1,892,558**	2,249,097	**9,174**	49,419
More than one year	**95,461**	93,370	**1,816**	947
	1,988,019	2,342,467	**10,990**	50,366

13. SHORT-TERM BANK DEPOSITS

	The Group		The Company	
	2006	2005	**2006**	2005
Bank deposits matured over three months	**187,449**	282,457	**187,449**	80,702
Restricted bank deposit	**8,371**	—	**—**	—
	195,820	282,457	**187,449**	80,702

As at 31 December 2006, restricted bank deposit represented deposits that were subject to externally imposed restriction relating to construction payable as requested by a contractor.

14. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
Cash at bank and in hand	**11,180,476**	5,110,716	**12,725**	12,886
Bank deposits with original maturities of three months or less	**1,001,632**	360,860	**907,276**	286,858
	12,182,108	5,471,576	**920,001**	299,744

The effective interest rate on bank deposits at 31 December 2006 ranged from 3.20% to 5.49% (31 December 2005: 3.98% to 4.50%). The bank deposits have a weighted average maturity of 76 days.

15. SHARE CAPITAL – COMPANY

	The Company	
	2006 HKD'000	2005 HKD'000
Authorised:		
30,000,000,000 ordinary shares of HKD0.1 each	**3,000,000**	3,000,000

	Number of shares '000	Ordinary shares, par value of HKD0.1 each HKD'000	Share capital	Share premium	Total
At 1 January 2005	12,563,492	1,256,349	1,332,487	52,546,294	53,878,781
Employee share option scheme – Recognition of shares issued on exercise of options (Note 29)	10,773	1,077	1,134	54,720	55,854
At 31 December 2005	12,574,265	1,257,426	1,333,621	52,601,014	53,934,635
Employee share option scheme – Recognition of shares issued on exercise of options (Note 29)	**106,724**	**10,672**	**10,819**	**621,962**	**632,781**
At 31 December 2006	**12,680,989**	**1,268,098**	**1,344,440**	**53,222,976**	**54,567,416**

The total authorised number of ordinary shares is 30 billion shares (2005: 30 billion shares) with a par value of HKD0.1 per share (2005: HKD0.1 per share). All issued shares are fully paid.

Increase of 106,724,000 ordinary shares in 2006 (2005: 10,773,200) represented the ordinary shares issued on exercise of share options under the Company's share option scheme (Note 29(h)).

(All amounts in RMB thousands unless otherwise stated)

16. LONG-TERM BANK LOANS

		The Group		The Company	
	Interest rates and final maturity	**2006**	2005	**2006**	2005
RMB denominated bank loans	Fixed interest rates ranging from 3.60% to 5.58% (2005: 3.60% to 5.58%) per annum with maturity through 2010 (2005: maturity through 2010) (a)				
– secured		**—**	755,000	**—**	—
– unsecured		**315,000**	6,687,468	**—**	—
		315,000	7,442,468	**—**	—
USD denominated bank loans	Floating interest rates of USD LIBOR plus interest margin of 0.35% to 0.44% (2005: 0.28% to 0.44%) per annum with maturity through 2010 (2005: maturity through 2010) (b)	**7,808,699**	9,684,240	**3,904,349**	5,649,162
Sub-total		**8,123,699**	17,126,708	**3,904,349**	5,649,162
Less: Current portion		**(3,984,350)**	(5,145,190)	**—**	(1,614,046)
		4,139,349	11,981,518	**3,904,349**	4,035,116

The repayment schedule of the long-term bank loans is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Balances due:				
– not later than one year	**3,984,350**	5,145,190	**—**	1,614,046
– later than one year and not later than two years	**2,377,609**	9,639,408	**2,342,610**	—
– later than two years and not later than five years	**1,761,740**	2,342,110	**1,561,739**	4,035,116
	8,123,699	17,126,708	**3,904,349**	5,649,162
Less: Portion classified as current liabilities	**(3,984,350)**	(5,145,190)	**—**	(1,614,046)
	4,139,349	11,981,518	**3,904,349**	4,035,116

16. LONG-TERM BANK LOANS (continued)

(a) As at 31 December 2006, no long-term bank loans (2005: RMB755 million) were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches who borrowed the long-term bank loans.

(b) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD0.7 billion. This facility was split into 3 tranches (i) USD0.2 billion 3-year loan; (ii) USD0.3 billion 5-year loan; and (iii) USD0.2 billion 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. During 2006, the Company has fully repaid the USD0.2 billion 3-year loan.

In addition, on 25 February 2004, CUCL signed an agreement with various financial institutions for a long-term syndicated loan of USD0.5 billion to finance its working capital and network construction expenditure. This facility is repayable in 3 years and carries an interest rate of 0.40% over US dollar LIBOR per annum. In February 2007, CUCL has fully repaid the USD0.5 billion loan.

(c) The effective interest rate of long-term bank loans denominated in RMB at 31 December 2006 was 4.22% (31 December 2005: 5.25%), and the effective interest rates of long-term bank loans denominated in USD at 31 December 2006 ranged from 5.72% to 5.81% (31 December 2005: from 4.94% to 5.14%).

(d) The carrying amount of long-term bank loans approximated their fair value.

17. CONVERTIBLE BONDS

The carrying values of the derivative component and liability component of the convertible bonds as at 31 December 2006 are as follows:

	The Group and the Company
Liability component	7,117,035
Derivative component	3,207,914
Carrying value of convertible bonds	10,324,949
Number of conversion shares at the issuance date (shares)	899,745,075

No conversion of the convertible bonds has occurred up to 31 December 2006.

(All amounts in RMB thousands unless otherwise stated)

17. CONVERTIBLE BONDS (continued)

On 5 July 2006, the Company issued a zero coupon convertible bonds with an aggregate principal amount of USD1 billion (the "Convertible Bonds") to SK Telecom Co., Ltd., ("SK Telecom"), an overseas telecommunications service operator in Korea. The bondholder has the option to convert the Convertible Bonds into shares of the Company with a par value of HKD0.10 each at a conversion price of HKD8.63 (an equivalent of approximately USD1.11) per share subject to adjustment for, among other matters, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, rights issues and other events, which have diluting effects on the issued share capital of the Company at any time from and including the first anniversary after the date of issuance up to the close of business in Hong Kong on the day falling seven days prior to 5 July 2009, the maturity date of the Convertible Bonds. Unless previously redeemed, converted, or purchased and cancelled, the Convertible Bonds will be redeemed at 104.26% of its principal amount on 5 July 2009.

At any time after 5 July 2007 or on the occurrence of a relevant event as defined in the Convertible Bonds agreement, a bondholder may freely assign or transfer any of the Convertible Bonds registered in its name to any third party provided that no assignment or transfer may be made to a person who is (i) a fixed line or mobile telecommunications operator in the PRC (a competitor operator), or (ii) directly or indirectly an affiliate of a competitor operator.

On 5 July 2008 (the Put Option Date), each bondholder will have the right at such holder's option, to require the Company to redeem all or some of the Convertible Bonds held by such holder on the Put Option Date at 102.82% of the principal amount. To exercise such right, the holder of the relevant Convertible Bonds must deliver its notice of redemption together with the Certificate evidencing the Convertible Bonds to be redeemed not later than 40 days prior to the Put Option Date.

As the functional currency of the Group is RMB, the conversion of the Convertible Bonds denominated in Hong Kong Dollars will 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 HKAS 39, Financial Instruments – Recognition and Measurement, the bond contract must be separated into two components: a derivative component consisting of the conversion option and a liability component consisting of the straight debt element of the bonds. The conversion option is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs.

17. CONVERTIBLE BONDS (continued)

The fair value of the derivative component of the Convertible Bonds was calculated using the Binomial model with the major inputs used in the model as at 5 July 2006 and 31 December 2006 as follows:

	5 July 2006	**31 December 2006**
Stock price	HKD6.95	**HKD11.40**
Exercise price	HKD8.63	**HKD8.63**
Volatility	31%	**31%**
Dividend yield	2%	**2%**
Risk free rate	4.57-4.63%	**3.51-3.55%**
Expected life	2.25-3 years	**1.76-2.51 years**
Option value	HKD0.96	**HKD3.56**

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 5 July 2006 to 31 December 2006 resulted in a fair value loss of RMB2.397 billion, which has been recorded as the "Unrealised loss on changes in fair value of derivative component of Convertible Bonds" in the income statement for the year ended 31 December 2006.

The initial carrying amount of the liability component is the residual amount after deducting the issuance cost of the Convertible Bonds and the fair value of the derivative component as at 5 July 2006, and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.53% to the adjusted liability component. Should the aforesaid derivative component not be separated out and the entire Convertible Bonds is considered as the liability component, the effective interest rate would have been 1.46%.

(All amounts in RMB thousands unless otherwise stated)

18. OBLIGATIONS UNDER FINANCE LEASES – GROUP

Obligations under finance leases are analysed as follows:

	The Group	
	2006	2005
Total minimum lease payments under finance leases:		
– not later than one year	**104,663**	443,400
– later than one year and not later than two years	**8,059**	152,058
– later than two years and not later than five years	**2,639**	875
– later than five years	**58**	—
	115,419	596,333
Less: Future finance charges	**(5,623)**	(30,335)
Present value of minimum obligations	**109,796**	565,998
Representing obligations under finance leases:		
– current liabilities	**99,566**	420,631
– non-current liabilities	**10,230**	145,367
The present value of obligations under finance leases:		
– not later than one year	**99,566**	420,631
– later than one year and not later than two years	**7,666**	144,541
– later than two years and not later than five years	**2,510**	826
– later than five years	**54**	—
	109,796	565,998
Less: Portion classified as current liabilities	**(99,566)**	(420,631)
	10,230	145,367

Obligations under finance leases were mainly related to the leasing of wireless public phone equipment (Note 6).

For the year ended 31 December 2006, interest rates of obligations under finance leases ranged from 4% to 5% (2005: 4% to 6%) per annum.

The carrying amounts of obligations under finance leases approximated their fair value.

19. PAYABLES AND ACCRUED LIABILITIES

		The Group		The Company	
	Note	**2006**	2005	**2006**	2005
Payables to contractors and equipment suppliers		**16,184,898**	11,156,462	**—**	—
Accrued expenses		**2,236,137**	1,835,353	**33,292**	49,057
Payables to telecommunications product suppliers		**1,875,356**	1,372,853	**—**	—
Customer deposits		**1,857,849**	1,456,601	**—**	—
Maintenance expense payables		**1,208,902**	542,540	**—**	—
Salary and welfare payables		**601,270**	464,372	**—**	—
Amounts due to services providers/ content providers		**797,586**	716,180	**—**	—
Provision for subscriber bonus point expenses	4.1(d)	**555,586**	337,414	**—**	—
Others	(a)	**972,490**	644,853	**34,779**	13,022
		26,290,074	18,526,628	**68,071**	62,079

(a) Others included miscellaneous accruals for housing fund and other government surcharges.

The aging analysis of payables and accrued liabilities is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Less than six months	**20,162,555**	11,260,366	**68,071**	62,079
Six months to one year	**3,981,712**	4,766,400	**—**	—
More than one year	**2,145,807**	2,499,862	**—**	—
	26,290,074	18,526,628	**68,071**	62,079

(All amounts in RMB thousands unless otherwise stated)

20. SHORT-TERM BONDS – GROUP

On 19 July 2005, CUCL completed an offering of short-term bonds, consisting of two tranches, in the PRC interbank debenture market. The first tranche of the bonds was issued in an aggregate amount of RMB9.0 billion with a maturity period of 365 days and was repaid in July 2006. The second tranche of the bonds was issued in an aggregate amount of RMB1.0 billion with a maturity period of 180 days and was repaid in January 2006.

In March 2006, CUCL completed an offering of short-term bonds of RMB1.0 billion with a maturity period of 365 days. In July 2006, CUCL completed another offering of short-term bonds in an aggregate amount of RMB6.0 billion, consisting of three tranches of RMB2.0 billion each, with a maturity period of 180 days, 270 days and 365 days, respectively. The weighted average effective interest rate of these short-term bonds as at 31 December 2006 was 3.19% (2005: 2.89%).

21. SHORT-TERM BANK LOANS

Supplemental information with respect to short-term bank loans is as follows:

	The Group				
	Balance at year end	Weighted average interest rate at year end Per annum	Maximum amount outstanding during the year	Average amount outstanding during the year*	Weighted average interest rate during the year Per annum**
31 December 2006					
RMB denominated bank loans					
– secured	—				
– unsecured	—				
	—	—	5,302,661	2,651,331	4.34%
HKD denominated bank loans					
– unsecured	—	—	1,721,697	860,849	1.55%
	—				
31 December 2005					
RMB denominated bank loans					
– secured	1,000,000				
– unsecured	4,302,661				
	5,302,661	4.86%	10,046,495	6,767,046	4.86%
HKD denominated bank loans (Note (a))					
- unsecured	1,721,697	3.10%	1,761,748	1,209,342	2.00%
	7,024,358				

21. SHORT-TERM BANK LOANS (continued)

	The Company				
	Balance at year end	Weighted average interest rate at year end Per annum	Maximum amount outstanding during the year	Average amount outstanding during the year*	Weighted average interest rate during the year Per annum**
31 December 2006					
HKD denominated bank loans					
– unsecured	**—**	**—**	**1,721,697**	**860,849**	**1.55%**
31 December 2005					
HKD denominated bank loans (Note (a))					
– unsecured	1,721,697	3.10%	1,761,748	1,209,342	2.00%

Notes:

(a) As at 31 December 2005, HKD denominated short-term bank loans of approximately HK$1,665 million (equivalent to approximately RMB1,722 million) were borrowed by the Company to finance the working capital of the Group. The bank loans were repayable in 1 year and carried at interest rates from 0.22% to 0.25% over HIBOR per annum. The loan has been fully repaid in 2006.

(b) The carrying amounts of short-term loans approximated their fair value.

* The average amount outstanding is computed by dividing the total of outstanding principal balances as at 1 January and 31 December, as applicable, by 2.

** The weighted average interest rate is computed by dividing the total of weighted average interest rates as at 1 January and 31 December, as applicable, by 2.

(All amounts in RMB thousands unless otherwise stated)

22. INVESTMENTS IN AND LOANS/AMOUNT DUE TO/FROM SUBSIDIARIES – COMPANY

(a) Investments in subsidiaries

	The Company	
	2006	2005
Unlisted equity investments, at cost	**55,341,026**	55,341,026

As at 31 December 2006, 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 Unicom Corporation Limited	The PRC, 21 April 2000, limited liability company	100%	—	47,425,763	Telecommunications operation in the PRC
Unicom New World (BVI) Limited	British Virgin Islands, 5 November 2003, limited liability company	100%	—	11,000 shares, HKD1 each	Investment holding in BVI
China Unicom International Limited	Hong Kong, 24 May 2000, limited liability company	100%	—	100,000 shares, HKD1 each	Telecommunications service in Hong Kong
China Unicom USA Co.	USA, 24 May 2002, corporation	—	100%	USD10,000	Telecommunications service in USA
China Unicom (Macau) Company Limited	Macau, 15 October 2004, limited liability company	99%	1%	MOP 60,000,000	Telecommunications operation in Macau
Unicom Huasheng Telecommunications Technology Company Limited (i)	The PRC, 1 July 2005, limited liability company	—	99.5%	500,000	Sales of telecommunication products in the PRC

(i) On 1 July 2005, CUCL together with Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye", a subsidiary of Unicom Group) set up Unicom Huasheng. The paid-in capital of Unicom Huasheng as of 31 December 2005 was RMB50 million, CUCL had contributed capital of RMB47.5 million, whereas the minority shareholder Unicom Xingye contributed the remaining capital of RMB2.5 million, thus CUCL effectively held 95% in the entire issued capital of Unicom Huasheng. In August 2006, CUCL increased its investment in Unicom Huasheng by RMB450 million, and the paid-in capital of Unicom Huasheng was then increased to RMB500 million. As at 31 December 2006, CUCL held 99.5% in the entire issued capital of Unicom Huasheng whereas Unicom Xingye held the remaining 0.5%.

22. INVESTMENTS IN AND LOANS/AMOUNT DUE TO/FROM SUBSIDIARIES – COMPANY (continued)

(b) Loans to subsidiaries

(i) In October 2003, the Company and CUCL signed an agreement for a long-term unsecured loan of USD0.7 billion with terms similar to the long-term syndicated bank loan to finance the network construction of CUCL (Note 16(b)). The loan was split into 3 tranches (i) USD0.2 billion 3-year loan; (ii) USD0.3 billion 5-year loan and (iii) USD0.2 billion 7-year loan and carried an interest rate of 0.4%, 0.47% and 0.55% over US dollar LIBOR per annum, respectively. During 2006, CUCL has fully repaid the USD0.2 billion 3-year loan.

(ii) In September 2006, the Company and CUCL signed an agreement for a long-term unsecured loan of USD995 million. The loan is interest bearing at 5.67% per annum and wholly repayable in 2009.

(iii) In July 2006, the Company and Unicom Macau signed an agreement for a long-term loan facility of HKD60 million. The loan is unsecured, interest-free and repayable in 2008. As at 31 December 2006, Unicom Macau has utilised HKD29.3 million (equivalent to approximately RMB29.5 million).

(iv) The carrying amounts of loans to subsidiaries approximated their fair value.

(c) Amounts due to/from subsidiaries

The amounts due to/from subsidiaries, other than loans to subsidiaries as disclosed above, are unsecured, interest-free and repayable on demand.

(All amounts in RMB thousands unless otherwise stated)

23. REVENUE (TURNOVER) – GROUP

Revenue primarily comprises usage fees, monthly fees, interconnection revenue, leased line rental income, value-added services revenue and sales of telecommunications products earned by the Group. Tariffs for these services are subject to regulations by various government authorities, including the State Development and Reform Commission, the Ministry of Information Industry ("MII") and the provincial price regulatory authorities.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to RMB2,285 million for the year ended 31 December 2006 (2005: RMB 2,166 million).

The major components of revenue are as follows:

	Note	2006	2005
GSM Business			
Usage fee	(a) (i)	**33,609,094**	32,077,305
Monthly fee	(b)	**7,370,440**	6,840,720
Interconnection revenue	(c)	**4,914,964**	3,466,067
Valued-added service revenue	(e)	**11,543,343**	7,966,629
Other revenue		**1,852,580**	1,784,807
Total GSM service revenue		**59,290,421**	52,135,528
CDMA Business			
Usage fee	(a) (i)	**14,695,758**	16,726,678
Monthly fee	(b)	**5,025,422**	4,905,538
Interconnection revenue	(c)	**1,732,360**	1,398,577
Valued-added service revenue	(e)	**5,314,118**	4,115,542
Other revenue		**525,484**	430,601
Total CDMA service revenue		**27,293,142**	27,576,936
Data and Internet Business			
Usage fee	(a) (ii)	**1,770,321**	2,540,574
Interconnection revenue	(c)	**92,140**	102,989
Leased lines rental	(d)	**473,708**	393,659
Other revenue		**39,147**	12,745
Total Data and Internet service revenue		**2,375,316**	3,049,967
Long Distance Business			
Usage fee	(a) (ii)	**64,337**	599,251
Interconnection revenue	(c)	**424,792**	434,577
Leased lines rental	(d)	**574,728**	489,969
Other revenue		**4,565**	776
Total Long Distance service revenue		**1,068,422**	1,524,573
Total service revenue		**90,027,301**	84,287,004
Sales of telecommunications products		**4,267,192**	2,761,827
Total revenue		**94,294,493**	87,048,831

23. REVENUE (TURNOVER) – GROUP (continued)

(a) Usage fees comprise:

(i) charges for incoming and outgoing calls made by cellular subscribers including charges for local calls, domestic direct dial ("DDD") and international direct dial ("IDD") as well as roaming fees for calls made by cellular subscribers outside their local service areas; and

(ii) charges for IP telephone calls, data and Internet services and fixed line long distance calls.

(b) Monthly fees represent fixed amounts charged to cellular subscribers on a monthly basis for maintaining their access to the related services.

(c) Interconnection revenue represents amounts received from other operators, including Unicom Group, for calls from their networks to the Group's networks. It also includes roaming-in fees received from other operators, including Unicom Group, for calls made by their subscribers using the Group's cellular networks (Notes 33.1(a) and 33.2(a)).

(d) Rental income represents rentals received for leasing of transmission lines and IRU to Unicom Group, business customers and other major telecommunications service operators in Mainland China. Other major telecommunications service operators include China Telecommunications Corporation and its subsidiaries, China Mobile Communications Corporation and its subsidiaries and China Network Communication Group Corporation and its subsidiaries. These entities are collectively referred to as "Domestic Carriers".

(e) Valued-added services revenue mainly represents revenue from the provision of services such as short message, cool ringtone, CDMA1X wireless data services and secretarial services to subscribers.

(All amounts in RMB thousands unless otherwise stated)

24. EXPENSES BY NATURE – GROUP

The following expenses are analysed by nature:

	Note	2006	2005
Depreciation on property, plant and equipment	6	**22,005,461**	19,931,501
Amortisation of other assets	8(d)	**417,351**	436,680
Total depreciation and amortisation		**22,422,812**	20,368,181
Amortisation of direct incremental costs for activating cellular subscribers	8(a)	**1,817,220**	1,582,282
Amortisation of customer acquisition costs of contractual CDMA subscribers	8(b)	**4,205,253**	5,947,631
Provision for doubtful debts:			
– GSM Business		**1,124,113**	867,154
– CDMA Business		**457,942**	458,161
– Data and Internet Business		**106,883**	139,327
– Long Distance Business		**52,827**	33,868
Total provision for doubtful debts	11	**1,741,765**	1,498,510
Write-down of inventories to net realisable value	10	**42,886**	20,392
Cost of inventories	10	**4,929,988**	3,575,316
Auditors' remuneration		**120,323**	59,884
Operating lease charges:			
– Leased lines		**685,093**	822,673
– CDMA network capacities	4.2(c)	**8,078,772**	7,924,644
– Others		**1,476,406**	1,157,518
Total operating lease expenses		**10,240,271**	9,904,835
Other expenses:			
– Repair and maintenance		**2,925,717**	2,397,501
– Travelling, entertainment and meeting		**779,220**	663,774
– Power and water charges		**2,652,960**	2,219,480
– Office expenses		**1,120,756**	986,502

24. EXPENSES BY NATURE – GROUP (continued)

	Note	2006	2005
Finance costs:			
– Interest on bank loans repayable over 5 years		**956**	18,033
– Interest on bank loans and bonds repayable within 5 years		**1,162,582**	1,955,231
– Interest element of finance lease		**28,633**	42,697
– Interest expense on convertible bonds	17	**193,123**	—
– Less: Amounts capitalised in construction-in-progress		**(422,797)**	(682,590)
Total interest expense		**962,497**	1,333,371
– Exchange gain, net		**(372,691)**	(273,647)
– Bank charges		**64,414**	39,597
Total finance costs		**654,220**	1,099,321

25. EMPLOYEE BENEFIT EXPENSES – GROUP

	Note	2006	2005
Employee benefit expenses:			
– Salaries and wages		**5,158,789**	4,268,004
– Contributions to defined contribution pension schemes	26	**474,831**	412,825
– Contributions to supplementary defined contribution pension schemes	26	**54,037**	58,222
– Monetary housing benefits	27	**35,528**	41,136
– Contributions to other housing fund	27	**286,253**	280,393
– Other housing benefits	27	**492,967**	447,315
– Share-based compensation	29	**146,294**	108,417
Total		**6,648,699**	5,616,312

(All amounts in RMB thousands unless otherwise stated)

25. EMPLOYEE BENEFIT EXPENSES – GROUP (continued)

25.1 Directors' and senior management's emoluments

The remuneration of every Directors for the year ended 31 December 2006 is set out below:

Name of Director	Note	Fees	Salaries and allowances	Bonuses paid and payable	Other benefits (a)	Contributions to pension schemes	Total
Chang Xiaobing		—	2,460	2,092	—	19	4,571
Shang Bing		—	2,152	1,632	968	19	4,771
Tong Jilu		—	1,742	1,291	968	19	4,020
Li Jianguo	(c)	—	1,038	738	965	15	2,756
Yang Xiaowei	(c)	—	1,038	738	895	15	2,686
Li Zhengmao	(c)	—	1,038	738	466	15	2,257
Li Gang	(c)	—	1,038	738	—	15	1,791
Zhang Junan	(c)	—	1,038	738	—	15	1,791
Lu Jianguo	(c)	247	—	—	1,278	—	1,525
Wu Jinglian		420	—	—	—	—	420
Shan Weijian		379	—	—	—	—	379
Cheung Wing Lam, Linus		400	—	—	—	—	400
Wong Wai Ming	(b)	390	—	—	—	—	390
Li Qiuhong	(d)	—	346	235	—	3	584
Lo Wing Yan, William	(e)	—	608	—	—	3	611
Ye Fengping	(e)	—	346	—	—	3	349
Liu Yunjie	(e)	81	—	—	—	—	81
Total		1,917	12,844	8,940	5,540	141	29,382

25. EMPLOYEE BENEFIT EXPENSES – GROUP (continued)

25.1 Directors' and senior management's emoluments (continued)

The remuneration of every Directors for the year ended 31 December 2005 is set out below:

Name of Director	Note	Fees	Salaries and allowances	Bonuses paid and payable	Other benefits (a)	Contributions to pension schemes	Total
Chang Xiaobing		—	2,525	1,669	—	19	4,213
Shang Bing		—	2,209	1,285	—	19	3,513
Tong Jilu		—	1,788	1,038	—	19	2,845
Li Qiuhong	(d)	—	672	335	—	6	1,013
Zhao Le	(f)	—	809	410	—	7	1,226
Lo Wing Yan, William	(e)	—	2,074	277	513	13	2,877
Ye Fengping	(e)	—	1,420	712	—	13	2,145
Liu Yunjie	(e)	316	—	—	—	—	316
Craig O. McCaw	(g)	114	—	—	—	—	114
Wu Jinglian		316	—	—	—	—	316
Shan Weijian		316	—	—	—	—	316
Cheung Wing Lam, Linus		316	—	—	—	—	316
Total		1,378	11,497	5,726	513	96	19,210

Note:

(a) Other benefits represent the difference between the amount which the directors obtain from a sale in the open market at the time of exercise of the options and the amount of the consideration paid for the shares during the year.

(b) Mr. Wong Wai Ming was appointed as independent non-executive director on 19 January 2006.

(c) Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Li Zhengmao, Mr. Li Gang and Mr. Zhang Junan were appointed as executive directors on 1 April 2006. Mr. Lu Jianguo was appointed as non-executive director on 1 April 2006.

(d) Mr. Li Qiuhong was appointed as executive director on 19 July 2005 and resigned on 1 April 2006.

(e) Mr. Lo Wing Yan, William, and Mr. Ye Fengping resigned as executive directors on 1 April 2006. Mr. Liu Yunjie resigned as non-executive director on 1 April 2006.

(f) Mr. Zhao Le resigned as executive director on 19 July 2005.

(g) Mr. Craig O. McCaw retired as independent non-executive director on 12 May 2005.

On 15 February 2006, 2,840,000 share options (2005: Nil) were granted to the then existing Directors and 3,000,000 share options (2005: Nil) were granted to management who were later appointed as Directors of the Company. No directors waived the right to receive emoluments during the year. (2005: Nil)

During 2006 and 2005, the Company did not incur any payment to any director for loss of office or as inducement to any director to join the Company.

(All amounts in RMB thousands unless otherwise stated)

25. EMPLOYEE BENEFIT EXPENSES – GROUP (continued)

25.2 Five highest paid individuals

Of the highest paid individuals in 2006, three (2005: five) are existing directors of the Company whose emoluments are included in Note 25.1. The emoluments of the remaining highest paid individuals, one is a past director and one is an employee, falls within the band from RMB2.5 million to RMB3.0 million and RMB3.5 million to RMB4.0 million, respectively. Their aggregate emoluments are set out below:

	2006	2005
Salaries and allowances	**2,076**	—
Bonuses paid and payable	**1,420**	—
Other benefits (Note 25.1(a))	**3,011**	—
Contributions to pension schemes	**24**	—
	6,531	—

26. RETIREMENT BENEFITS – GROUP

Full time employees in Mainland China are covered by a state-sponsored defined contribution pension scheme under which the employees are entitled to an annual pension equal to a fixed proportion of their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make defined contributions to the pension scheme at the rate of 19% of the employees' basic salaries for the year ended 31 December 2006 (2005: 19%). Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions.

In addition, effective from 11 August 1998, a supplementary defined contribution pension plan managed by an independent insurance company was established. Under this plan, the Group makes a monthly defined contribution of 2% to 16% (2005: 2% to 16%) of the monthly salary of the relevant employees. There were no vested benefits attributable to past services upon adoption of the plan.

Retirement benefits charged to the income statement are as follows:

	2006	2005
Contributions to defined contribution pension schemes	**474,831**	412,825
Contributions to supplementary defined contribution pension schemes	**54,037**	58,222

27. HOUSING BENEFITS – GROUP

Under housing reform schemes in accordance with government regulations at the provincial level in Mainland China, the Group provided benefits to certain qualified employees to enable them to purchase living quarters at a discount. For GSM Business, certain of these living quarters were provided by Unicom Group and the related benefits were not charged to the Group. Housing benefits which were not charged to the Group amounted to approximately RMB14.9 million for 2006 (2005: RMB14.9 million).

In addition, full time employees in Mainland China are entitled to participate in a state-sponsored housing fund. The fund can be used for the construction of living quarters or may be withdrawn upon the retirement of the employees. The Group is required to make annual contributions to the housing fund at a rate of 10% (2005: 10%) of the employees' basic salaries.

According to the central government policy on housing reform based on a State Council circular issued in 1998, monetary housing subsidies in the form of special cash payments are to be made by certain Mainland China enterprises to their employees in order to enable them to purchase living quarters. Under this general policy, enterprises are allowed to establish their own housing reform schemes taking into consideration the actual financial capability of the enterprises.

The Group finalised its monetary housing benefit scheme as a special employee incentive scheme for all qualified employees in 2001. According to the scheme, the total amount of monetary housing benefit for each employee is determined based on the working age of the employee and the property market price prevailing in the relevant location. The total monetary housing benefit is divided into three annual payments in the proportion of 40%, 30% and 30% respectively. In order to be included in the incentive scheme, employees are required to sign a service contract with a minimum service period. The employees will be entitled to the first 40% payment only when the following criteria are met:

(i) the provincial branch in which the employees are working has achieved the annual performance budget set by head office management; and

(ii) the employees continue to be under the employment of the Group at the time of the payment.

Similarly, the employees will only be entitled to the second and then the third annual payments when and only when the above two conditions are also fulfilled in subsequent years.

For the years ended 31 December 2006 and 2005, certain provinces achieved the annual performance budget and were thus approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the years ended 31 December 2006 and 2005 amounted to approximately RMB36 million and RMB41 million, respectively, based on the aforementioned distribution plan. The remaining provinces were not entitled to the special monetary housing benefits in 2006 since they did not achieve their annual performance budget in 2006 and accordingly, no provision for such benefits was made.

The expenses incurred by the Group in relation to the housing benefits described above are as follows:

	2006	2005
Special monetary housing benefits	**35,528**	41,136
Contributions to other housing fund	**286,253**	280,393
Other housing benefits	**492,967**	447,315
	814,748	768,844

(All amounts in RMB thousands unless otherwise stated)

28. PROFITS ATTRIBUTABLE TO EQUITY HOLDERS

(a) CUCL has registered as foreign investment enterprises in the PRC. In accordance with the Articles of Association of CUCL, it is 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 is required to allocate at least 10% of its profit after tax and minority interests determined under PRC GAAP 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.

CUCL appropriated approximately RMB584 million (2005: RMB463 million) to the general reserve fund for the year ended 31 December 2006.

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 are not distributable as cash dividends. Under HKFRS, the appropriations to the staff bonus and welfare fund will be charged to the income statement as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2006 and 2005, no appropriation to staff bonus and welfare fund has been made.

(b) For the year ended 31 December 2006, profit attributable to equity holders included a profit of approximately RMB659 million (2005: profit of RMB3,130 million) which has been dealt with in the financial statements of the Company. As at 31 December 2006, the amount of distributable reserves to equity holders of the Company amounted to approximately RMB2,368 million (2005: RMB3,093 million).

29. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") and a fixed award pre-global offering share options scheme ("Pre-Global Offering Share Option Scheme") on 1 June 2000 for the granting of share options to qualified employees, with terms amended on 13 May 2002 to comply with the requirements set out in the Chapter 17 to the Rules Governing the Listing of Securities on SEHK.

All of the share options granted are governed by the amended terms of the Share Option Scheme and Pre-Global Offering Share Option Scheme as mentioned below.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	The Company			
	2006		2005	
	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	**6.51**	**257,602,000**	6.45	274,063,400
Granted	**6.35**	**167,466,000**	—	—
Forfeited	**6.92**	**(4,088,000)**	7.15	(5,688,200)
Exercised	**4.95**	**(106,724,000)**	4.60	(10,773,200)
Balance, end of year	**6.95**	**314,256,000**	6.51	257,602,000

Employee share options exercised for the year ended 31 December 2006 resulted in 106,724,000 shares being issued (2005: 10,773,200 shares), with exercise proceeds of approximately RMB535 million (2005: RMB52 million).

As at 31 December 2006, out of the 314,256,000 outstanding share options (2005: 257,602,000), 115,683,600 share options (2005: 162,981,160) were exercisable, and the weighted average exercise price was HKD8.09 (2005: HKD7.12).

(All amounts in RMB thousands unless otherwise stated)

29. SHARE OPTION SCHEME (continued)

As at 31 December 2006, information of outstanding share options is summarised as follows:

Date of options grant	The period during which an option may be exercised	The price per share to be paid on exercise of options	**Number of share options outstanding as at 31 December 2006**	Number of share options outstanding as at 31 December 2005
Share options granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000 (a)	22 June 2002 to 21 June 2010	HKD15.42	**24,178,000**	24,309,600
Share options granted under the Share Option Scheme:				
30 June 2001 (b)	30 June 2001 to 22 June 2010	HKD15.42	**6,292,000**	6,508,000
10 July 2002 (c)	10 July 2003 to 9 July 2008	HKD6.18	**11,540,400**	25,012,800
21 May 2003 (d)	21 May 2004 to 20 May 2009	HKD4.30	**25,611,600**	91,381,600
30 May 2003 (d)	21 May 2004 to 20 May 2009	HKD4.66	**—**	212,000
20 July 2004 (e)	20 July 2005 to 19 July 2010	HKD5.92	**80,224,000**	109,524,000
21 December 2004 (f)	21 December 2005 to 20 December 2010	HKD6.20	**654,000**	654,000
15 February 2006 (g)	15 February 2008 to 14 February 2012	HKD6.35	**165,756,000**	—
			314,256,000	257,602,000

29. SHARE OPTION SCHEME (continued)

(a) Pursuant to the resolution passed by the Board of Directors in June 2000, a total of the 27,116,600 share options were granted on 22 June 2000 to the senior management, including directors, and certain other employees (which represent, on their full exercise, 27,116,600 shares of the Company) under the fixed award Pre-Global Offering Share Option Scheme adopted by the Company on 1 June 2000 in 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 option 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 on 13 May 2002. Apart from the above two terms, the principal terms are the same as the amended Share Option Scheme in all material aspects.

(b) On 1 June 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) equal to 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 a 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 22 June 2000. According to a resolution of the Board of Directors in June 2001, the Company has granted 6,724,000 share options under the Share Option Scheme which represent, on their full exercise, 6,724,000 shares to certain employees of the Group in the following terms:

(i) the price of a share payable by a participant upon the exercise of an option shall be HKD15.42 (excluding the brokerage fee and SEHK transaction levy); and

(ii) the share options are vested on the date of grant and exercisable from the date of grant to 22 June 2010.

(All amounts in RMB thousands unless otherwise stated)

29. SHARE OPTION SCHEME (continued)

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the Chapter 17 of the Listing Rules which came into effect on 1 September 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.

(c) Pursuant to the resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 10 July 2002, a total of 36,028,000 share options were granted to eligible individuals including directors, independent non-executive directors, and the non-executive directors of the Company under the amended Share Option Scheme in the following terms:

(i) aggregate of 2,802,000 share options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price per share option is HKD6.18; and

(iii) the vesting dates and exercisable periods of the share options are as follows:

Vesting dates	Exercisable periods	Portions
10 July 2003	10 July 2003 to 9 July 2008	40%
10 July 2004	10 July 2004 to 9 July 2008	30%
10 July 2005	10 July 2005 to 9 July 2008	30%

29. SHARE OPTION SCHEME (continued)

(d) Pursuant to the resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 21 May 2003 and 30 May 2003, a total of 105,590,000 share options and 366,000 share options were granted to eligible individuals (including directors, independent non-executive directors, non-executive directors, middle to senior management of the Group) respectively, under the amended Share Option Scheme in the following terms:

(i) an aggregate of 2,772,000 share options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise prices per share option are HKD4.30 and HKD4.66, respectively; and

(iii) the vesting dates and exercisable periods of the share options are as follows:

Vesting dates	Exercisable periods	Portions
21 May 2004	21 May 2004 to 20 May 2009	40%
21 May 2005	21 May 2005 to 20 May 2009	30%
21 May 2006	21 May 2006 to 20 May 2009	30%

(e) Pursuant to the resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 20 July 2004, a total of 112,668,000 share options were granted to eligible individuals (including directors, independent non-executive directors, non-executive directors, middle to senior management of the Group, under the amended Share Option Scheme in the following terms:

(i) an aggregate of 3,366,000 share options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price per share option is HKD5.92; and

(iii) the vesting dates and exercisable periods of the share options are as follows:

Vesting dates	Exercisable periods	Portions
20 July 2005	20 July 2005 to 19 July 2010	40%
20 July 2006	20 July 2006 to 19 July 2010	30%
20 July 2007	20 July 2007 to 19 July 2010	30%

(All amounts in RMB thousands unless otherwise stated)

29. SHARE OPTION SCHEME (continued)

(f) Pursuant to the resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 21 December 2004, a total of 654,000 share options were granted to the executive directors of the Company, under the amended Share Option Scheme in the following terms:

(i) the exercise price per share option is HKD6.20; and

(ii) the vesting dates and exercisable periods of the share options are as follows:

Vesting dates	Exercisable periods	Portions
21 December 2005	21 December 2005 to 20 December 2010	40%
21 December 2006	21 December 2006 to 20 December 2010	30%
21 December 2007	21 December 2007 to 20 December 2010	30%

(g) Pursuant to the resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 15 February 2006, a total of 167,466,000 share options were granted to eligible individuals (including directors and middle to senior management of the Group) under the amended Share Option Scheme in the following terms:

(i) this grant comprises basic and conditional portions. The criterion for the exercise of the conditional portion of share options are based on the achievement of revenue and profit targets of the 2006 budget of the Company and respective provincial branches. Under this scheme, out of the total of 167,446,000 share options granted, 37,762,000 share options were granted with performance conditions;

(ii) an aggregate of 2,840,000 share options were granted to the then executive directors of the Company;

(iii) the exercise price per share option is HKD6.35; and

(iv) the vesting dates and exercisable periods of the share options are as follows:

Vesting dates	Exercisable periods	Portions
15 February 2008	15 February 2008 to 14 February 2012	50%
15 February 2009	15 February 2009 to 14 February 2012	50%

29. SHARE OPTION SCHEME (continued)

The Group recognised share-based employee compensation costs based on the estimated fair value of share options at the grant 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, change in subjective input assumptions can materially affect the fair value estimate. Accordingly, the fair value of share options granted under the above scheme in 2006 was HKD2.10 per option. The significant assumptions used was the closing price of HKD6.35 at the grant date, exercise price of HKD6.35 per share, volatility of 39%, expected life of share options of 5 years, expected dividend payout rate of 2% and annual risk-free interest rate of 4%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 5 years.

For the year ended 31 December 2006, employee share-based compensation costs amortised over the vesting periods of the share options amounted to approximately RMB146 million (2005: RMB108 million).

(h) Details of share options exercised during 2006 and 2005 are as follows:

For the year ended 31 December 2006:

Grant date	Exercise price HKD	Weighted average closing price per share at respective days immediately before the exercise of options HKD	Proceeds received HKD	Number of shares involved
10 July 2002	6.18	8.82	81,180,480	13,136,000
21 May 2003	4.30	8.35	282,742,200	65,754,000
30 May 2003	4.66	8.51	986,860	212,000
20 July 2004	5.92	8.80	163,522,240	27,622,000
			528,431,780	106,724,000

(All amounts in RMB thousands unless otherwise stated)

29. SHARE OPTION SCHEME (continued)

For the year ended 31 December 2005:

Grant date	Exercise price HKD	Weighted average closing price per share at respective days immediately before the exercise of options HKD	Proceeds received HKD	Number of shares involved
10 July 2002	6.18	7.69	5,821,560	942,000
21 May 2003	4.30	7.76	37,793,560	8,789,200
30 May 2003	4.66	7.80	716,870	154,000
20 July 2004	5.92	6.90	5,256,960	888,000
			49,588,950	10,773,200

30. EARNINGS PER SHARE

Earnings per Share and ADS:

Basic earnings per share for the years ended 31 December 2006 and 2005 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2006 and 2005 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the years, 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 and (iii) the Convertible Bonds. The potential ordinary shares which are not dilutive mainly arose from share options granted under the amended Pre-Global Offering Share Option Scheme and the Convertible Bonds and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

	2006			2005		
	Profit attributable to equity holders RMB'000	**Shares In thousands**	**Per share amount RMB**	Profit attributable to equity holders RMB'000	Shares In thousands	Per share amount RMB
Basic earnings	**3,731,824**	**12,599,018**	**0.296**	4,931,052	12,570,398	0.392
Effect of conversion of share options	**—**	**50,288**		—	37,078	
Diluted earnings	**3,731,824**	**12,649,306**	**0.295**	4,931,052	12,607,476	0.391

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.

30. EARNINGS PER SHARE (continued)

To enable an investor to better understand the Group's results, below is a table reconciling earnings per share to adjusted earnings per share, excluding the unrealised loss on changes in fair value of derivative component of Convertible Bonds that is not considered to be an indicator of the Group's operating performance in 2006.

	2006	2005
Profit attributable to equity holders	**3,731,824**	4,931,052
Adjustments for: Unrealised loss on changes in fair value of derivative component of Convertible Bonds	**2,396,592**	—
Profit attributable to equity holders (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds)	**6,128,416**	4,931,052
Adjusted basic earnings per share (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds) (RMB)	**0.486**	0.392
Adjusted diluted earning per share (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds) (RMB)	**0.484**	0.391

(All amounts in RMB thousands unless otherwise stated)

31. DIVIDENDS

At the annual general meeting held on 12 May 2006, the shareholders of the Company approved the payment of a final dividend of RMB0.11 per ordinary share for the year ended 31 December 2005 totaling approximately RMB1.4 billion which has been reflected as an appropriation of retained profits for 2006. As at 31 December 2006, such dividends have been fully paid by the Company.

At a meeting held on 29 March 2007, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.18 per ordinary share to the shareholders for the year ended 31 December 2006 totaling approximately RMB2.3 billion. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2006, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 31 December 2007.

	2006	2005
Proposed final dividend of RMB0.18 (2005: RMB0.11) per ordinary share	**2,282,578**	1,383,169

32. FAIR VALUE OF FINANCIAL INSTRUMENTS – GROUP

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, accounts receivable, amounts due from related parties and Domestic Carriers. Financial liabilities of the Group mainly include payables and accrued liabilities, bank loans, convertible bonds, short-term bonds, lease payables and amounts due to related parties and Domestic Carriers.

Cash and cash equivalents and short-term bank deposits denominated in foreign currencies, as summarised below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2006.

	The Group					
	2006			2005		
	Original currency '000	**Exchange rate**	**RMB equivalent RMB'000**	Original currency '000	Exchange rate	RMB equivalent RMB'000
Cash and cash equivalents:						
– denominated in HK dollars	**651,551**	**1.00**	**654,613**	45,791	1.04	47,636
– denominated in US dollars	**478,397**	**7.81**	**3,735,659**	83,023	8.07	670,010
– denominated in MOP	**—**	**0.98**	**—**	92	1.01	93
– denominated in EURO	**1,700**	**10.27**	**17,457**	87	9.90	861
Sub-total			**4,407,729**			718,600
Short-term bank deposits:						
– denominated in HK dollars	**13,000**	**1.00**	**13,060**	—	1.04	—
– denominated in US dollars	**22,333**	**7.81**	**174,389**	35,000	8.07	282,457
Sub-total			**187,449**			282,457
Total			**4,595,178**			1,001,057

(All amounts in RMB thousands unless otherwise stated)

32. FAIR VALUE OF FINANCIAL INSTRUMENTS – GROUP (continued)

	The Company					
	2006			2005		
	Original currency '000	**Exchange rate**	**RMB equivalent RMB'000**	Original currency '000	Exchange rate	RMB equivalent RMB'000
Cash and cash equivalents:						
– denominated in HK dollars	**624,847**	**1.00**	**627,765**	36,695	1.04	38,163
– denominated in US dollars	**37,424**	**7.81**	**292,236**	32,412	8.07	261,581
Sub-total			**920,001**			299,744
Short-term bank deposits:						
– denominated in HK dollars	**13,000**	**1.00**	**13,060**	—	1.04	—
– denominated in US dollars	**22,333**	**7.81**	**174,389**	10,000	8.07	80,702
Sub-total			**187,449**			80,702
Total			**1,107,450**			380,446

The Group did not have and does not believe it will have any difficulty 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 at 31 December 2006 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 values.

The derivative component of the convertible bonds is carried at fair value with any changes in fair value reflected through profit or loss in the period when such changes occur. The liability component of convertible bonds is carried at amortised cost, which approximates their fair values (Note 17).

The carrying amounts of long-term bank loans approximated their fair values based on prevailing market borrowing rates available for comparable bank loans with similar terms and maturities.

33. RELATED PARTY TRANSACTIONS – GROUP

Unicom Group is a state-owned enterprise 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, directly or indirectly controlled by the PRC government are also considered to be related parties of the Group. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The PRC government also 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 that have other material transactions with the Group include other telecommunications service operators, equipment vendors, construction vendors, and state-owned banks in the PRC. Management believes that meaningful information relative to related party transactions has been adequately disclosed below.

The Group's telecommunications networks depend, in large part, on interconnection with the public switched telephone network and on transmission lines leased from other Domestic Carriers.

33.1 Unicom Group and its subsidiaries

The table set forth below summarises the names of significant related parties (excluding Domestic Carriers and other major state-owned enterprises which are summarised in Note 33.2 and 33.3 respectively) and nature of relationship with the Group as at 31 December 2006:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate holding company
Unicom NewSpace Co., Ltd. ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Co., Ltd. ("Unicom Xingye")	A subsidiary of Unicom Group
Beijing Unicom Xingye Science and Technology Company Limited ("Beijing Xingye")	A subsidiary of Unicom Group
Unicom Import and Export Company Limited (" Unicom I/E Co")	A subsidiary of Unicom Group
Unicom New Horizon Mobile Telecommunications Corporation Limited ("New Horizon")	A subsidiary of Unicom Group
Unicom New Guoxin Telecommunications Corporation Limited ("New Guoxin")	A subsidiary of Unicom Group
China Information Technology Designing & Consulting Institute ("CITDCI")(Newly became a wholly-owned subsidiary of Unicom Group in December 2006)	A subsidiary of Unicom Group
UNISK (Beijing) Information Technology Co., Ltd. ("UNISK")	A joint venture company of Unicom Group

(All amounts in RMB thousands unless otherwise stated)

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its subsidiaries

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Note	2006	2005
Transactions with Unicom Group and its subsidiaries:			
Interconnection and roaming revenues	(i), (iii)	**212,178**	207,526
Interconnection and roaming charges	(ii), (iii)	**59,125**	57,902
Rental income for premises and facilities	(iv)	**16,257**	18,662
Charge for operator-based value-added services by New Guoxin	(v)	**365,076**	412,549
Charge for customer services by New Guoxin	(vi)	**675,373**	562,003
Agency fee incurred for subscriber development services by New Guoxin	(vii)	**58,982**	15,312
CDMA network capacity lease rental	(viii)	**8,078,772**	7,924,644
Constructed capacity related cost of CDMA network	(ix)	**167,367**	176,130
Sales of CDMA handsets	(x)	**84,190**	2,921
Charges for cellular subscriber value-added services by UNISK and Unicom NewSpace	(xi)	**45,618**	28,418
Rental charges for premises, equipment and facilities	(xii)	**27,931**	21,059
Charges for the international gateway services	(xiii)	**17,143**	19,797
Charges for leasing of satellite transmission capacity	(xiv)	**—**	11,794
Revenue for leasing of transmission line capacity	(xv)	**17,682**	25,841
Purchase of telephone cards	(xvi)	**702,409**	671,715
Agency fee incurred for procurement of telecommunications equipment	(xvii)	**13,148**	15,791

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

(i) Interconnection revenues represent the amounts received or receivable from Unicom Group for calls from its networks to the Group's networks. Roaming revenues represent revenue from calls made by Unicom Group's subscribers using the Group's networks.

(ii) Interconnection charges are for calls made from the Group's networks to Unicom Group's networks. Roaming expenses represent expenses for calls made by the Group's subscribers using Unicom Group's networks.

(iii) Interconnection settlement between Unicom Group's network and the Group's network is based on standards established from time to time by the MII. In the case of calls between cellular subscribers in different provinces, settlement is based on either the standards established by the MII or an internal settlement arrangement applied by Unicom Group based on their respective internal costs of providing this service. Also, charges for roaming services between the Group and Unicom Group are based on the respective internal costs of providing these services.

(iv) Pursuant to the premises leasing agreement signed between the Group and New Guoxin in 2005 (the "2005 Guoxin Premises Leasing Agreement"), the Group agreed to provide premises to New Guoxin. The rental amount is based on the higher of depreciation costs and market price for similar premises in that locality.

(v) Pursuant to the agreement signed between the Group and New Guoxin in 2005 (the "2005 Comprehensive Operator 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.

(vi) Pursuant to the 2005 Comprehensive Operator 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.

(All amounts in RMB thousands unless otherwise stated)

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

(vii) Pursuant to the 2005 Comprehensive Operator 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.

(viii) Pursuant to the 2005 CDMA Lease Agreement entered among CUCL, Unicom Group and Unicom New Horizon, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL. Details please refer to Note 4.2(c).

(ix) Pursuant to the 2005 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 as part of the 2005 CDMA Lease Agreement. The proportion of the constructed capacity related costs to be borne by the Group shall be 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.

(x) Pursuant to the framework agreement for the procurement of CDMA mobile handsets entered between the Guizhou branch of Unicom Huasheng and the Guizhou branch of Unicom Group on 19 December 2006, the Guizhou branch of Unicom Huasheng agreed to sell CDMA mobile handsets to the Guizhou branch of Unicom Group from 1 January 2006 to 31 December 2008. The selling price of the CDMA mobile handsets are determined based on the factors including without limitation on the cost of handsets acquired by the Guizhou branch of Unicom Huasheng for sale and the cost in distributing those handsets to recipients designated by the Guizhou branch of Unicom Group.

(xi) Pursuant to the Cellular Subscriber Value-Added Services Agreements (the "Agreements") entered among CUCL, UNISK and Unicom NewSpace respectively in March 2004, CUCL agreed to provide its telecommunications channel and network subscriber resources to UNISK and Unicom NewSpace, enable them to provide value-added services to subscribers through CUCL's cellular telecommunications network and data platform. The Agreements also stipulate that the content service fees paid by subscribers for using UNISK's or Unicom NewSpace's value-added services are shared between CUCL and UNISK, or CUCL and Unicom NewSpace based on an agreed proportion. The content service fees are collected from subscribers by CUCL and the relevant portion is paid to UNISK and Unicom NewSpace on a regular basis.

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

(xii) CUCL signed service agreements with Unicom Group to mutually lease premises, equipment and facilities from each other. Rentals are based on the lower of depreciation costs and market rates.

(xiii) 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) Satellite transmission capacity leasing fees represented the amounts paid or payable to Unicom NewSpace for the use of satellite transmission capacity. The charges were based on the MII regulations then in effect less the applicable discount up to 10% as agreed with Unicom NewSpace. The leasing agreement was terminated at the end of year 2005.

(xv) Unicom Group leases transmission line capacity from the Group in accordance with the relevant provision of the services agreement. Revenue for leasing of transmission line capacity is based on tariffs stipulated by MII from time to time less a discount of up to 10%.

(xvi) The Group signed a service agreement with Unicom Group to purchase telephone cards from Unicom Group (to be imported by 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.

(xvii) The Group signed a service agreement with Unicom I/E Co., in which Unicom I/E Co. agreed to provide equipment procurement services to the Group. Unicom I/E Co. charges the Group 0.55% (for contract up to an amount of USD30 million (inclusive)) and 0.35% (for contract with an amount of more than USD30 million) of the value of imported equipment, and 0.25% (for contract up to an amount of RMB200 million (inclusive)) and 0.l5% (for contract with an amount of more than RMB200 million) of the value of domestic equipment for such services.

(All amounts in RMB thousands unless otherwise stated)

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

(xviii) In 2006, State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") transferred 100% equity interest in CITDCI to Unicom Group, CITDCI became a wholly-owned subsidiary of Unicom Group effective from 28 December 2006 upon obtaining relevant approvals from the government authorities. Accordingly, CUCL entered into a new agreement, "2006 Comprehensive Services Agreement" with Unicom Group and CITDCI on 26 October 2006, in which CITDCI agreed to provide engineering design and technical services to the Group based on the pricing terms agreed among CUCL, Unicom Group and CITDCI. 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 shall not be higher than those adopted by an independent third party providing services in the same industry.

(xix) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark licence agreement entered into between Unicom Group and CUCL, CUCL and its affiliates are granted the right to use these trademarks on a royalty free basis for an initial period of 5 years, renewable at CUCL's option.

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(b) Amounts due from and to related parties/Unicom Group

Amounts due from and to related parties or Unicom Group and its subsidiaries are unsecured, interest free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Unicom Group or its subsidiaries as described in (a) above.

(c) Amount due to/ (from) Unicom Group

	The Group	
	2006	2005
Due to/(from) Unicom Group, beginning of year	**38,094**	(61,401)
Interconnection and roaming revenues	**(212,178)**	(207,526)
Interconnection and roaming charges	**59,125**	57,902
Revenue for leasing of transmission line capacity, premises and facilities	**(17,682)**	(25,841)
Rental charges for premises, equipment and facilities	**27,931**	21,059
Charges for the international gateway services	**17,143**	19,797
Leasing of satellite transmission capacity	**—**	11,794
Net receipt during the year	**132,648**	222,310
Due to Unicom Group, end of year	**45,081**	38,094

(All amounts in RMB thousands unless otherwise stated)

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.1 Unicom Group and its subsidiaries (continued)

(d) Renewal of continuing connected transactions in 2006 year-end

The significant related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries had expired by 31 December 2006. On 26 October 2006, CUCL entered into the new agreements, "2006 Comprehensive Services Agreement" and "2006 CDMA Lease Agreement", with Unicom Group and Unicom New Horizon to continue to carry out the related party transactions. The new agreements have been approved by the minority shareholders of the Company on 1 December 2006, and become effective from 1 January 2007. Major changes of the key terms between the new agreements and the previous agreements are set out as follows:

- 2006 CDMA Lease Agreement

  Pursuant to 2006 CDMA Lease Agreement, the CDMA lease has an initial term of one year. The lease fee has been determined based on the same pricing mechanism as under the 2005 CDMA Lease Agreement, but with a conditional increase in the lease fee of 1% from 30% to 31% if the audited CDMA profit before taxation of CUCL for the relevant year is not less than the audited CDMA profit before taxation of CUCL for the year 2006 as set out in the relevant annual audited financial statements. The key terms of 2006 CDMA Lease Agreement are disclosed in Note 4.2(c).

- 2006 Comprehensive Services Agreement

  Pursuant to 2006 Comprehensive Services Agreement, the customer service fees payable shall be calculated on the same basis as under previous agreements, except Guangdong has been added as one of the economically developed metropolises in determining the cost per operator seat.

Details of the new agreements have already been set forth in the shareholders circular "Continuing Connected Transactions" of the Company issued on 10 November 2006.

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.2 Domestic Carriers

(a) Transactions with Domestic Carriers

The following is a summary of significant transactions with Domestic Carriers in the ordinary course of business:

		The Group	
	Note	**2006**	2005
Interconnection revenue	(i)	**5,460,211**	3,964,977
Interconnection charges	(i)	**9,118,314**	7,886,395
Leased line revenue	(ii)	**54,912**	62,865
Leased line charges	(ii)	**328,701**	548,481

(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 public switched telephone 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 MII.

(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.

(All amounts in RMB thousands unless otherwise stated)

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.2 Domestic Carriers (continued)

(b) Amounts due from and to Domestic Carriers

	The Group	
	2006	2005
Amounts due from Domestic Carriers		
– Receivables for interconnection revenue and leased line revenue	**158,894**	139,099
– Less: Provision for doubtful debts	**(20,373)**	(614)
	138,521	138,485
Amounts due to Domestic Carriers		
– Payables for interconnection charges and leased lines charges	**850,975**	822,006

All amounts due from and to Domestic Carriers were unsecured, non-interest bearing and repayable within one year.

33.3 Other major state-owned enterprises

(a) Transactions with other major state-owned enterprises

The following is a summary of significant transactions with other major state-owned enterprises in the ordinary course of business:

	The Group	
	2006	2005
Purchase of CDMA handsets	**1,144,181**	1,795,009
Construction and installation fee	**218,904**	290,170
Purchase of equipment	**1,654,891**	3,588,153
Line leasing revenue	**166,559**	153,837
Finance income/costs, include:		
– Interest income	**226,065**	96,196
– Interest expense	**832,681**	1,587,260
Short-term bank loan received	**2,070,000**	11,946,716
Long-term bank loan received	**1,315,000**	5,772,746
Short-term bank loan repaid	**7,372,661**	14,363,131
Long-term bank loan repaid	**8,442,468**	25,869,531

33. RELATED PARTY TRANSACTIONS – GROUP (continued)

33.3 Other major state-owned enterprises (continued)

(b) Amounts due from and to other major state-owned enterprises

The balances with other major state-owned enterprises in various line items of the consolidated balance sheet are listed as follows:

	The Group	
	2006	2005
Current assets		
Prepayment and other current assets	**288,930**	160,681
Short-term bank deposit	**21,432**	282,457
Cash and cash equivalents	**11,994,563**	5,191,067
Non-current liabilities		
Long-term bank loans	**235,000**	7,946,418
Current liabilities		
Payables and accrued liabilities	**661,403**	341,446
Short-term bank loans	**—**	6,431,208
Current portion of long-term bank loans	**80,000**	5,145,190

(All amounts in RMB thousands unless otherwise stated)

34. CONTINGENCIES AND COMMITMENTS

34.1 Capital commitments

As at 31 December 2006 and 2005, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group			
	2006			2005
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**499,280**	**2,199,345**	**2,698,625**	3,879,666
Authorised but not contracted for	**63,993**	**879,287**	**943,280**	329,258
Total	**563,273**	**3,078,632**	**3,641,905**	4,208,924

As at 31 December 2006, approximately RMB203 million (2005: RMB218 million) of capital commitment outstanding was denominated in US dollars, equivalent to USD26 million (2005: USD27 million).

34.2 Operating lease commitments

As at 31 December 2006 and 2005, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	The Group				
	2006				2005
	Land and buildings	**Equipment**	**CDMA network capacity (a)**	**Total**	Total
Leases expiring:					
– not later than one year	**935,718**	**129,951**	**7,270,895**	**8,336,564**	7,873,407
– later than one year and not later than five years	**1,889,947**	**77,808**	**—**	**1,967,755**	1,990,679
– later than five years	**1,082,987**	**24,804**	**—**	**1,107,791**	1,168,106
Total	**3,908,652**	**232,563**	**7,270,895**	**11,412,110**	11,032,192

34. CONTINGENCIES AND COMMITMENTS (continued)

34.2 Operating lease commitments (continued)

(a) In relation to the above CDMA network capacity commitment, it is estimated based on 90% of the total amount of lease fee paid by the Group to Unicom New Horizon in 2006 pursuant to 2006 CDMA Lease Agreement (See Note 4.2(c) for details).

As at 31 December 2006 and 2005, the Company had total future aggregate minimum operating lease payments under operating leases as follows:

	The Company	
	2006	2005
Office premise lease expiring:		
– not later than one year	**10,971**	2,853
– later than one year and not later than five years	**15,542**	—
Total	**26,513**	2,853

34.3 Commitment to purchase CDMA handsets

As of 31 December 2006, the Group committed to purchase CDMA handsets from third party vendors amounting to approximately RMB1,237 million (2005: RMB1,232 million).

(All amounts in RMB thousands unless otherwise stated)

35. EVENTS AFTER BALANCE SHEET

35.1 Non-adjusting post balance sheet event

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of this change in enterprise income tax rates on the Group's consolidated financial statements will depend on detailed implementation pronouncements that are to be issued subsequently. The Group is currently assessing the impact on the Group's results of operations and financial position of this change in enterprise income tax rates.

35.2 Proposed final dividend

After the balance sheet date, the Board of Directors proposed a final dividend. For details, see Note 31.

36. COMPARATIVE FIGURES

For comparative purposes, the carrying value of land use rights underlying the buildings acquired from third parties was reclassified from "Property, plant and equipment" to "Other assets" on the 2005 comparative consolidated balance sheet. Please refer to Note 6 for details.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 29 March 2007.