

China Unicom (Europe) Operations Limited

(Registered Number: 5992614)

Annual Report and Financial Statements For The Year Ended 31 December 2010

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China Unicom (Europe) Operations Limited

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China Unicom (Europe) Operations Limited

Company Information

Directors

Mr Yujun Zhao
Mr Bo Yan
Mr Xiaomin Gu
Mr Zhigang Han
Mr Guanglu Shao
Ms Naiyue Shao
Mr Ruoyi Guan
Ms Yan Ma

Company secretary

Comat Registrars Limited

Registered office

Deloitte & Touche LLP
Hill House,
1 Little New Street,
London,
EC4A 3TR

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London,
WC2N 6RH

Lawyers

Berwin Leighton Paisner LLP

Registered number

5992614

China Unicom (Europe) Operations Limited

Directors' report for the year ended 31 December 2010

Registered Number: 5992614

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2010

Principal activities

The principal activity of the company during the year was the provision of international voice, data and internet telecommunication services

Future developments

The company will continue to develop the existing international voice, data and internet telecommunication services, adding new products to the portfolio. The company will continue to expand cooperation with partners in other European and African countries. The company will expand its business into the mobile market in the next few years.

Results and dividends

The profit for the financial year amounted to £138,397(2009: £2,685). No interim or final dividends were paid or proposed (2009: £nil).

Principal risks and uncertainties

The management of the company and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to competition from both United Kingdom and overseas service providers. The risks also include the decrease of consumer demand influenced by global economic depression and the decrease of service price incurred by competition.

Key performance indicators

The directors consider the key performance indicators to be revenue, cost, earnings before interest, tax, depreciation and amortization, profit before tax and capital expenditure. Management is assessed against these key performance indicators by its parent company in China.

Financial risk management

(a) Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars, RMB and HK dollars. The amount of monetary assets and liabilities denominated in foreign currencies is monitored to minimise the risk.

(b) Credit risk

The company puts great focus in evaluating credit rating of its customers. All the current clients are reputable telecom operators which have good credit ratings. The company has the right to terminate the circuit service to the telecom operators and enterprises if payments become overdue.

China Unicom (Europe) Operations Limited

Directors' report for year ended 31 December 2010 (continued)

Registered Number: 5992614

Post balance sheet event

There have been no circumstances or events subsequent to the year which require adjustment of or disclosure in the financial statement or in the notes thereto

Directors

The composition of the Board of Directors of the company during the year ended 31 December 2010 and at the date of this report was as follows

Mr Yujun Zhao
Mr Bo Yan
Mr Xiaomin Gu
Mr Zhigang Han
Mr Guanglu Shao
Ms Naiyue Shao
Mr Ruoyi Guan
Ms Yan Ma
Mr William So(resigned on 20 April 2010)

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

China Unicom (Europe) Operations Limited

Directors' report for the year ended 31 December 2010 (continued)

Registered Number: 5992614

Statement of disclosure of information to auditors

Each of the directors confirm that, to the best of their knowledge and belief, (a) there is no relevant audit information of which the company's auditors are unaware, and (b) they have taken all the steps that might reasonably be expected to have taken in order to make themselves aware of relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the Board

Yan Ma
Director

A handwritten signature in black ink, appearing to be 'Yan Ma' with a stylized flourish at the end.

26 September 2011

Independent auditors' report to the members of China Unicom (Europe) Operations Limited

We have audited the financial statements of China Unicom (Europe) Operations Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of China Unicom (Europe) Operations Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Suwei Jiang (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 September 2011

China Unicom (Europe) Operations Limited

Profit and Loss Account for the year ended 31 December 2010

		2010	2009
	Note	£	£
Turnover	2	4,351,122	3,106,430
Cost of sales		(3,168,863)	(2,091,067)
Gross profit		1,182,259	1,015,363
Administrative expenses		(679,071)	(807,176)
Distribution costs		(353,270)	(252,722)
Operating loss	3	149,918	(44,535)
Interest receivable and similar income	6	1,333	755
Interest payable and similar charges	7	(4,630)	(3,176)
Profit / (Loss) on ordinary activities before taxation		146,621	(46,956)
Tax on profit / (loss) on ordinary activities	8	(8,224)	49,641
Profit for the financial year	14	138,397	2,685

All amounts relate to continuing activities

No statement of recognised gains and losses is required as there are no recognised gains or losses other than the results detailed above

There is no difference between the results reported above and the equivalent results calculated on an unmodified historical cost basis

China Unicom (Europe) Operations Limited

Balance Sheet as at 31 December 2010

		2010	2009
	Note	£	£
Fixed assets			
Tangible assets	9	1,890,945	1,145,895
Other deferred assets	10	15,512	-
		1,906,457	1,145,895
Current assets			
Debtors (including £88,583 (2009 £88,583) due after more than one year)	11	1,579,560	940,076
Cash at bank		4,204,774	3,005,706
		5,784,334	3,945,782
Creditors: amounts falling due within one year	12	(3,814,089)	(1,361,596)
Net current assets		1,970,245	2,584,186
Total assets less current liabilities		3,876,702	3,730,081
Provision for liabilities	8	(20,418)	(12,194)
Net assets		3,856,284	3,717,887
Capital and reserves			
Called up share capital	13	4,861,000	4,861,000
Profit and loss account	14	(1,004,716)	(1,143,113)
Total shareholders' funds	15	3,856,284	3,717,887

The financial statements on pages 7 to 19 were approved by the board of directors on 26 September 2011 and were signed on its behalf by

Yan Ma
Director



China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, on a going concern basis, and are in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards (UK GAAP)

A summary of the more important accounting policies, which have been consistently applied, is set out below

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows

Network equipment	– 5 to 10 years
Office equipment	– 5 to 9 years

Finance income and expenditure

Finance income is recognised as income in the year in which it is earned. Finance expenditure is recognised as an expense in the year in which it is incurred.

Foreign exchange

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange prevalent at the end of the financial year.

Transactions in foreign currencies are translated into sterling at the rate of exchange prevalent at weighted average of the month of transaction.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

1 Principal accounting policies (continued)

Deferred taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Cash flow statement

The company has taken advantage of the exemption permitted by Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements' not to produce a cash flow statement on the basis that the intermediate parent company, China Unicom (Hong Kong) Limited, having a 100 percent controlling influence, produces group consolidated financial statements which are available to the public.

Turnover

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

Monthly fees and sales of services are recognised when the services are rendered.

Operating leases

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 straight-line basis over the period of the lease.

2 Turnover

All turnover is generated from one class of business which are services provided to customers in the United Kingdom.

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

3 Operating loss

	2010	2009
	£	£
Operating loss is stated after charging		
Wages and salaries	958,548	741,244
Social security costs	91,488	60,413
Staff costs	1,050,036	801,657
Depreciation of tangible fixed assets	150,371	117,506
Amortisation of leasehold improvement costs	3,627	18,627
Operating lease charges – plant and machinery	308,045	263,579
Operating lease charges – others	2,394,961	1,448,889
Auditors' remuneration – audit of the financial statements	20,000	19,000
– non-audit services	19,300	5,500

4 Directors' emoluments

The employee costs shown above include the following remuneration in respect of director of the company

	2010	2009
Aggregate emoluments	306,431	-
Compensation for loss of office	10,899	-
	317,330	-

There are no directors accruing retirement benefits under a defined pension scheme at the end of the year 2010 (2009 none)

The aggregate emoluments before compensation for loss of office for the highest paid Director were £221,283 for 2011 (2010 None), and total accrued annual pension at 31 December 2010 for the highest paid Director was Nil (2009 £Nil)

The aggregate amount of any compensation paid to any Vice-Chancellor, Principal or higher paid employee for loss of office was £10,899 (2009 Nil)

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

5 Employee information

The average monthly number of employee during the year was as follows

	2010	2009
By activity		
Production	2	2
Selling and distribution	6	5
Administration	4	4
	12	11

6 Interest receivable and similar income

	2010	2009
	£	£
Bank interest receivable	1,333	755

7 Interest payable and similar charges

	2010	2009
	£	£
Bank interest payable	4,630	3,176

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

8 Tax on loss on ordinary activities

(a) Analysis of charge in the year

	2010	2009
	£	£
Current tax:		
UK Corporation tax based on the losses for the period	-	-
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	(43,119)	(24,117)
Adjustment in respect of previous years	51,343	(25,524)
Total deferred tax	8,224	(49,641)
Tax on profit / (loss) on ordinary activities	8,224	(49,641)

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

8 Tax on ordinary activities (continued)

(a) Analysis of charge in the year (continued)

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of corporation tax in the UK. The differences are explained in the following table

	2010	2009
	£	£
Factors affecting the tax charge for the year		
Profit / (Loss) on ordinary activities before taxation	146,621	(46,956)
Profit / (Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	41,054	(13,148)
Effects of:		
Expenses not deductible for tax purposes	7,239	3,600
Capital allowances less than depreciation on fixed assets	43,119	24,117
Brought forward tax losses utilised	(91,412)	(14,569)
Current tax charge in the period	-	-

(b) Deferred tax

	2010	2009
	£	£
Accelerated capital allowances		
Opening balance – deferred tax liability	12,194	61,835
Charged / (Credit) to the profit and loss account	8,224	(49,641)
Closing balance – deferred tax liability	20,418	12,194

The closing deferred tax liability consists of timing differences on fixed assets at 28%

In addition, the company has an unrecognised deferred tax asset of £250,407 as at 31 December 2010 (2009 £341,819). This is made up of unrelieved tax losses at 28%

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

8 Tax on ordinary activities (continued)

(c) Factors that may affect future tax charges

A number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax liability provided at the balance sheet date by £1,459. This decrease in the deferred tax liability would increase profit by £1,459. This decrease in the deferred tax liability is due to the additional reduction in the corporation tax rate to 26 per cent with effect from 1 April 2011.

The effect of the changes enacted in the Finance Act 2011 would be to further reduce the deferred tax liability provided at the balance sheet date by an additional £729. This decrease in the deferred tax liability would increase profit by £729. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 26 per cent to 25 per cent with effect from 1 April 2012.

9 Tangible assets

	Office equipment	Network equipment	Total
	£	£	£
Cost			
At 1 January 2010	18,913	1,370,731	1,389,644
Additions	774	894,647	895,421
At 31 December 2010	19,687	2,265,378	2,285,065
Accumulated depreciation			
At 1 January 2010	3,216	240,533	243,749
Charge for the year	2,524	147,847	150,371
At 31 December 2010	5,740	388,380	394,120
Net book value			
At 31 December 2010	13,947	1,876,998	1,890,945
At 31 December 2009	15,697	1,130,198	1,145,895

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

10 Other deferred assets

	Leasehold improvements
	£
Cost	
At 1 January 2010	62,108
Additions	19,139
At 31 December 2010	81,247
Accumulated depreciation	
At 1 January 2010	62,108
Charge for the year	3,627
At 31 December 2010	65,735
Net book value	
At 31 December 2010	15,512
At 31 December 2009	-

The leasehold improvement costs relate to the two leased premises the company uses to hold its network equipment. It is amortised over the initial lease term (3 years).

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

11 Debtors

	2010	2009
	£	£
Trade debtors	746,515	787,609
Amounts owed by group undertakings	652,349	20,283
Other debtors	132,316	111,508
Prepayments and accrued income	48,380	20,676
	1,579,560	940,076

Other debtors include £130,335(2009 £88,583) falling due after more than one year
Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

12 Creditors: amounts falling due within one year

	2010	2009
	£	£
Trade creditors	436,135	19,898
Amounts owed to group undertakings	3,000,747	1,014,354
Other creditors	49,691	159,486
Accruals and deferred income	327,516	167,858
	3,814,089	1,361,596

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

13 Called up share capital

	2010	2009
	£	£
Authorised		
5,860,000 ordinary shares of £1 each	5,860,000	5,860,000
Allotted and fully paid		
4,861,000 ordinary shares of £1 each	4,861,000	4,861,000

14 Profit and loss account

	2010	2009
	£	£
Opening profit and loss account	(1,143,113)	(1,145,798)
Profit for the financial year	138,397	2,685
Closing profit and loss account	(1,004,716)	(1,143,113)

15 Reconciliation of movements in shareholders' funds

	2010	2009
	£	£
Opening shareholders' funds	3,717,887	3,715,202
Profit for the financial year	138,397	2,685
Closing shareholders' funds	3,856,284	3,717,887

China Unicom (Europe) Operations Limited

Notes to the Financial Statements for the year ended 31 December 2010 (continued)

16 Commitments under operating leases

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below

	2010	2009
	Land and buildings	Land and buildings
	£	£
Operating leases which expire		
Within 1 year	55,074	95,458
Within 2 to 5 years	285,921	156,390
	340,995	251,848

Where the lease commitments are denominated in foreign currencies the future commitments have been translated at the foreign exchange rate prevailing at the balance sheet date

17 Related party disclosures

In accordance with FRS 8 'Related Party Disclosures', transactions with other group undertakings of China Unicom (Hong Kong) Limited have not been disclosed in these financial statements as the company is a wholly owned subsidiary of a parent entity publishing group financial statements

18 Ultimate parent undertaking

The company is a wholly owned subsidiary of China Unicom (Hong Kong) Limited, the immediate parent company which is a listed company registered in Hong Kong of the PRC

China Unicom Group Corporation Limited, a company registered in the People's Republic of China ("PRC"), is the ultimate parent undertaking of the company