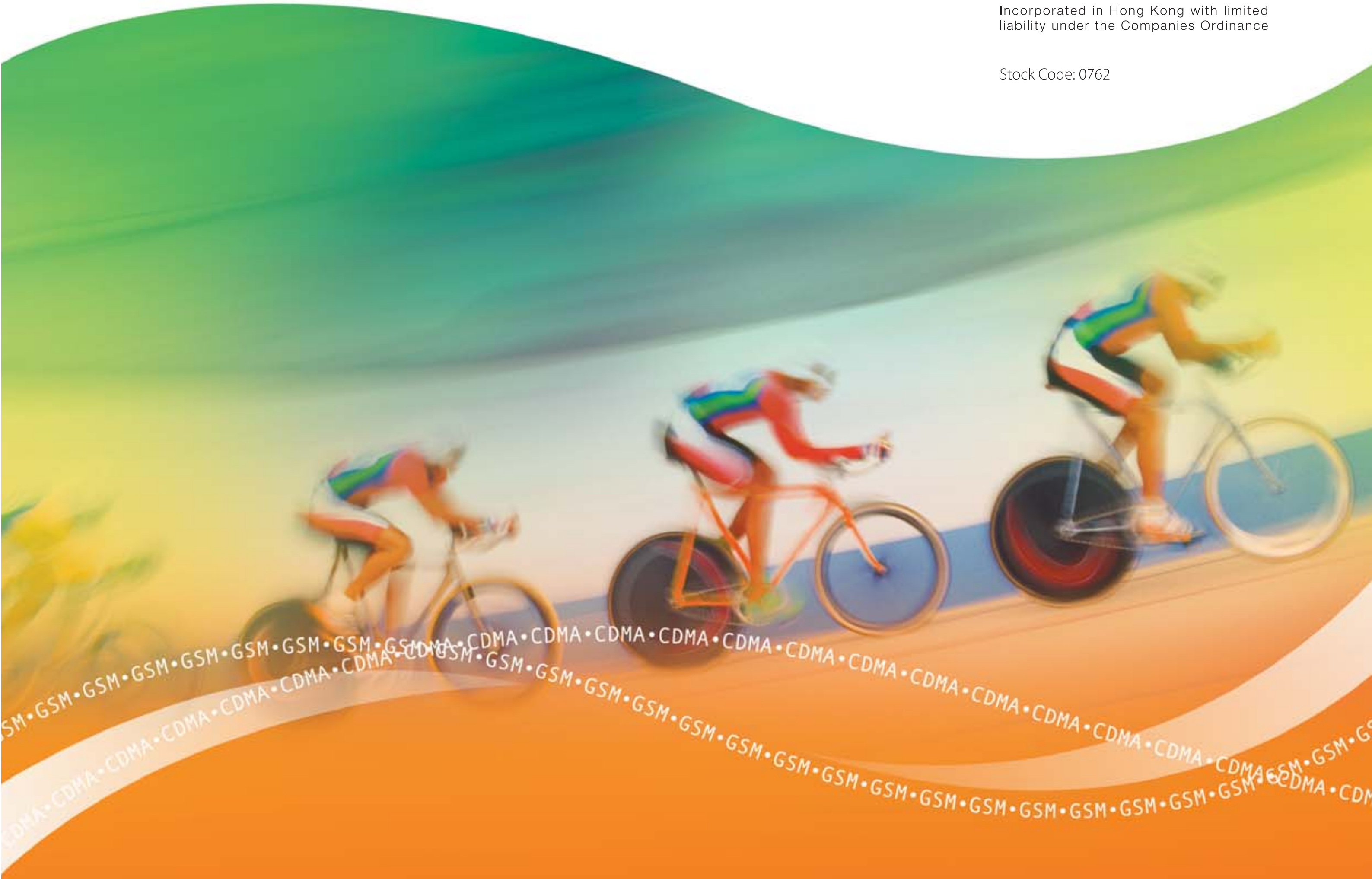
China unicom 中国联通

CHINA UNICOM LIMITED

Incorporated in Hong Kong with limited liability under the Companies Ordinance

Stock Code: 0762



Interim Report 08

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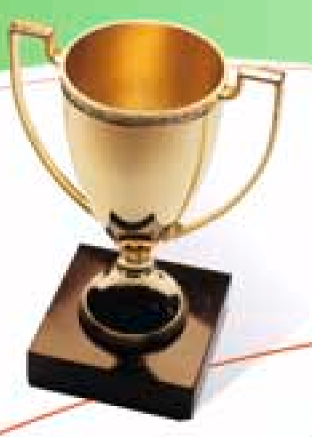

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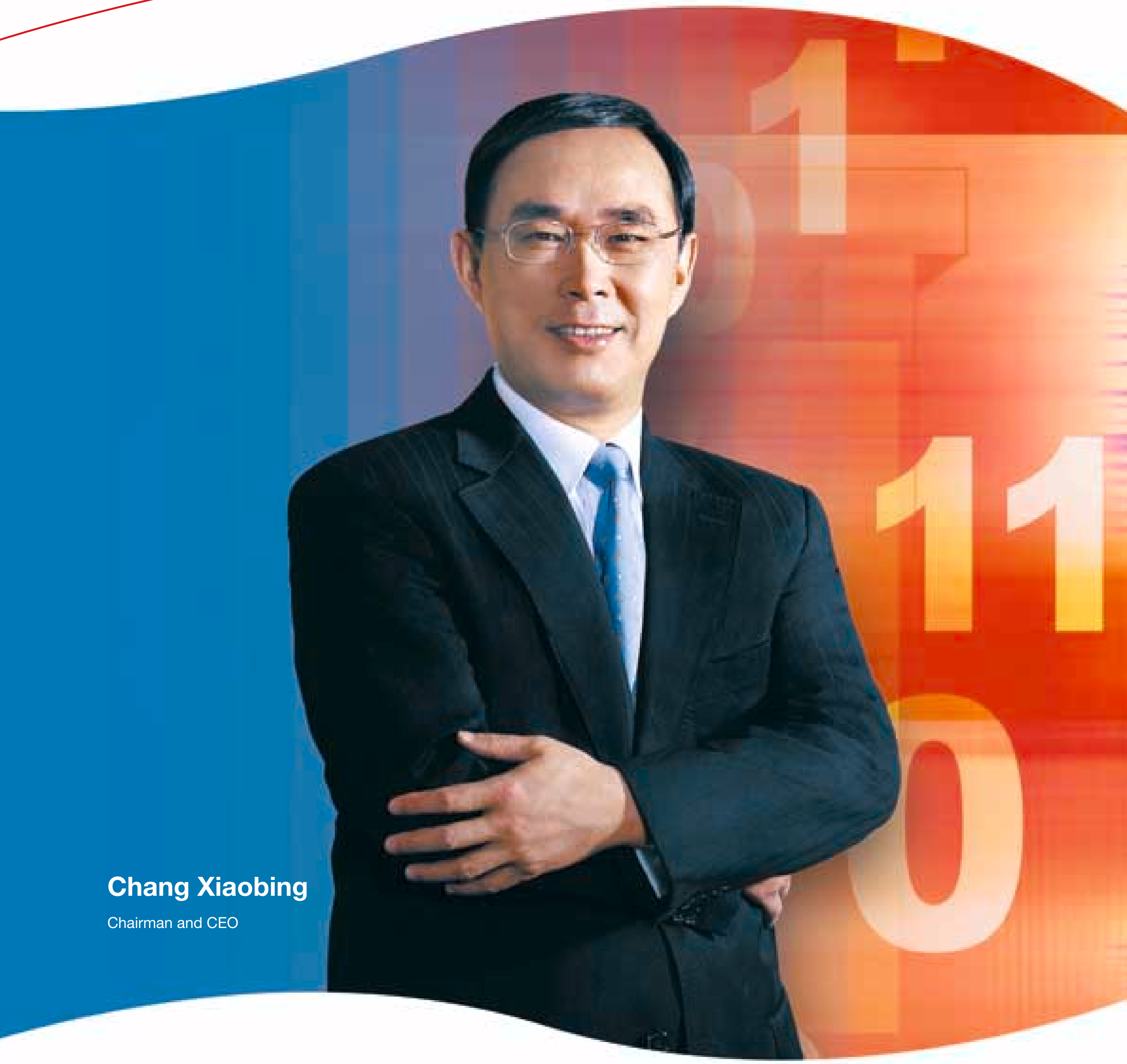

Chang Xiaobing

Chairman and CEO

In the first half of this year, the Company proactively addressed various challenges including market competition and adjustments to domestic roaming tariffs. While maintaining effective business developments, the Company continued to explore new markets. The Company entered into two major transactions (the proposed disposal of its CDMA business and a proposed merger with China Netcom) as it moved towards implementing a strategic restructuring of its business. The Company has also been proactively involved in the support of the recent natural disasters in China, in order to fulfill its corporate social responsibilities. The work mentioned above have all been progressing well, and its business has been developing steadily.

Highlights of the first half year results

Continuing operations:

During the first half of this year, the Company recorded revenues of RMB35.14 billion, representing an increase of 4.0% over the same period of last year. Service revenues amounted to RMB35.12 billion, including RMB32.50 billion from the GSM business and RMB2.62 billion from the long distance, data and internet business.

Profit before tax and profit for the period amounted to RMB5.13 billion and RMB3.77 billion respectively, representing an increase of 49.5% and 107.1% respectively over the same period of last year, and an increase of 1.2% and 8.9%, respectively, if eliminating the effect of the unrealized loss on changes in fair value of the derivative component of convertible bonds in the same period of last year. EBITDA amounted to RMB15.88 billion. Free cash flow was RMB6.92 billion.

Discontinued operations:

As a result of the proposed disposal of the CDMA business, the Company has classified this business as discontinued operations. Profit for the discontinued operations for the period was RMB0.65 billion.

Profit for the period:

The Company recorded a total profit of RMB4.42 billion (including profit from continuing operations of RMB3.77 billion and profit from discontinued operations of RMB0.65 billion). Basic earnings per share was RMB0.324, of which basic earnings per share from continuing operations was RMB0.276.

Steady development of operations

In the first half of this year, the Company's mobile business developed steadily. The Company persisted in brand marketing for its GSM business, enhanced its sales and marketing system, and executed target marketing activities, all of which helped to achieve steady growth in users, revenue and profits. The Company maintained its marketing strategies for the CDMA business, and endeavored to minimize the impact brought by the proposed disposal of such operations, to ensure the steady operation of its overall business. As at 30 June 2008, the Company had 127.60 million GSM subscribers and 43.17 million CDMA subscribers.

The Company's mobile value-added business grew rapidly during the period. While the Company continued to increase the penetration rate and diversity of revenue from its mature businesses such as SMS and "Cool Ringtone" service, it also focused on the promotion of its GPRS business, achieving a penetration rate of 17.3%. In the first half of this year, revenue derived from GSM mobile value-added service increased by 21.6% over the same period of last year, and represented 24.1% of service revenue from GSM mobile business.

The Company adjusted its business model for the long distance, data and internet businesses, and focused on the promotion of its multimedia video, internet and corporate information businesses, all of which realized steady growth in profits.

Enhancement of service and management quality

The Company adopted 2008 the "Olympic Year of Unicom's Services" as its theme, and launched a series of new measures to ensure its provision of its services during the Olympic and to strengthen its control over the service quality. These measures enabled the Company to further enhance the quality and standard of its services.

The Company further strengthened its infrastructure management, IT control, and information system support capabilities. Smooth network operations were ensured through the enhancement of operational maintenance and network safety management, and the strengthening of various basic works, such as budget control, performance appraisals, separation of management of inflow and outflow fund, and internal control appraisals.

Strategic restructuring progressing well

On 2 June 2008, the Company entered into a framework agreement with China Telecom in respect of the disposal of its CDMA business and related assets. The consideration for the transaction is RMB43.8 billion, to be paid in cash. On the same day, it announced its intention to merge with China Netcom by way of a scheme arrangement of China Netcom, whereby the Company would offer 1.508 China Unicom shares for every China Netcom share, and 3.016 China Unicom ADSs for every China Netcom ADS.

On 28 July 2008, the Company announced that it had entered into a detailed agreement with China Telecom in respect of the disposal of its CDMA business and related assets, and a circular was sent to shareholders on 1 August 2008 in relation to that transaction. The Company believes that disposal of the CDMA business will be beneficial to the Company as it focuses its financial and operational resources on the development of its GSM business and the future development of 3G services, which are expected to enhance investment returns.

On 15 August 2008, the Company issued a circular to shareholders in respect of the proposed merger with China Netcom. The Company believes that the proposed merger is in line with the overall development and trend of global integration of fixed-line and mobile businesses, and is beneficial to the enhancement of its overall competitiveness.

Actively fighting against disasters to protect communications

During the snowstorms in southern China early this year and the Wenchuan earthquake in May, the communication networks in the stricken areas were severely damaged. The Company immediately launched a series of emergency measures and dispatched employees to repair networks and timely re-established the connection between the severely affected areas with the outside world, thus safeguarding the communication channels for the rescue works and ensuring the communication of messages of care to the stricken areas, and actively performed its corporate social responsibilities.

Outlook

The telecommunication industry in China still has tremendous potential, and the industry restructuring may bring new changes and opportunities to the Company. In the second half of this year, the Company will increase investments in its GSM network and enhance its overall network coverage and communication quality. The Company will focus on further developing its mobile business, in particular the GPRS value-added services, to boost overall revenue. The Company will continue to execute its strategic restructuring, and ensure a smooth transition and transfer of its CDMA business. The Company also plans to complete the proposed merger with China Netcom smoothly and proactively integrate its existing resources, enhance operational efficiency and service capabilities, in order to achieve synergies.

The Company will convene Extraordinary General Meetings on 16 September 2008 at which the proposal in respect of the disposal of its CDMA business and the merger with China Netcom will be presented to our shareholders for approval.

Following the completion of the merger, the Company will change its name to "China Unicom (Hong Kong) Limited (or "China Unicom" as its short name). The new company will focus on establishing a market leading position in the domestic 3G market, integrating its mobile and fixed-line businesses, launching innovative products and developing new markets with the aim of becoming a world-class broadband communications and information services provider.

We believe that the new company will have stronger integrated capabilities, clearer business strategies and broader scope for business development.

Finally, I would take this opportunity to express on behalf of the Board our heartfelt thanks to Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Li Zhengmao and Mr. Miao Jianhua for their contributions to the Company during their terms of office as Directors. I would also like to express my gratitude to our shareholders and the communities for their support to the Company, and also thanks to the management and all the staff for their efforts in facing the challenges of the first half of this year.

The Chairman and Chief Executive Officer
Chang Xiaobing

25 August 2008

Financial and Business Overview

I. Financial Overview

For the first half of 2008, the Company continued to follow its existing business objectives and being committed to the market-oriented business strategies, enhanced the quality of business development and achieved steady and sustainable growth in all businesses.

Continuing Operations (Note 1)

1. *Revenue*

   For the first half of 2008, our revenue from continuing operations continued to grow steadily and reached RMB35.14 billion, up by 4.0% from the same period of last year (Note 2). Of the total revenue, service revenue was RMB35.12 billion, up by 4.0% from the same period of last year. Among the service revenue, service revenue from our GSM cellular business reached RMB32.50 billion while service revenue from our long distance, data and internet business reached RMB2.62 billion.

2. *Costs and Expenses*

   For the first half of 2008, total costs and expenses from continuing operations, including financial gains, interest income and other gains, were RMB30.00 billion, down by 1.1% from the same period of last year. Excluding the effect of the unrealised loss on changes in fair value of derivative component of convertible bonds (Note 3) for the same period of last year, total costs and expenses would be up by 4.5% from the same period of last year. Selling and marketing expenses were RMB5.36 billion, up by 3.4% from the same period of last year and depreciation and amortisation expenses were RMB10.97 billion, down by 0.6% from the same period of last year.

3. *Earnings*

   For the first half of 2008, our profit before income tax from continuing operations was RMB5.13 billion, up by 49.5% from the same period of last year. Profit before income tax for the GSM cellular business was RMB5.16 billion while profit before income tax for long distance, data and internet business was RMB0.35 billion.

   For the first half of 2008, profit before income tax was up by 49.5% from the same period of last year. Excluding the effect of the unrealised loss on changes in fair value of derivative component of convertible bonds for the same period of last year, profit before income tax for the first half of 2008 would be up by 1.2% compared to the same period of last year.

   EBITDA (Note 4) from continuing operations was RMB15.88 billion and EBITDA margin (representing EBITDA as a percentage of the total revenue) was 45.2%. EBITDA margin for the GSM cellular business was 43.6%.

Discontinued Operations (Note 1)

For the first half of 2008, profit for the period from discontinued operations, i.e. CDMA cellular business which is also classified as held for sale, was RMB0.65 billion.

Consolidated Earnings

For the first half of 2008, profit for the period (Note 5) was RMB4.42 billion (including profit from continuing operations of RMB3.77 billion and profit from discontinued operations of RMB0.65 billion). Basic earnings per share was RMB0.324 and basic earnings per share for continuing operations was RMB0.276.

Capital Expenditures on and Free Cash Flow from Continuing Operations

For the first half of 2008, our capital expenditures on continuing operations totaled RMB7.31 billion. Free cash flow from continuing operations (representing net cash generated from operating activities minus capital expenditures) was RMB6.92 billion.

Balance Sheet

As at 30 June 2008, our capital structure was further improved. The liabilities-to-assets ratio (Note 6) decreased from 34.9% as at 31 December 2007 to 32.3% as at 30 June 2008. The debt-to-capitalisation ratio (Note 7) decreased from 3.8% as at 31 December 2007 to 3.5% as at 30 June 2008.

II. Business Overview

In the first half of 2008, the Company continued to enhance its branding, strengthen its product and business management, improve service support and steadily develop its business, despite the impact from adjustments to mobile roaming tariffs and the major restructuring in the China telecom sector.

1. Mobile Business

The GSM business continued to focus on brand marketing, enhancing its sales and marketing and improving its value proposition in different customer segments. As a result, it achieved steady growth by improving perceptions and countering the impact of "calling-party-pay" policies and domestic roaming tariff adjustments. As of 30 June 2008, total number of GSM subscribers reached 127.599 million, a net addition of 7.035 million in the first half of 2008. The average minutes of usage (MOU) per subscriber per month for GSM reached 249.6 minutes, slightly ahead of 248.4 minutes in the first half of last year. Average revenue per user (ARPU) was RMB43.6, representing a decline of RMB3.7 from RMB47.3 in the first half of last year. The GSM monthly average churn rate was 2.80% in the first half of this year.

Despite the roaming tariff adjustment and the telecom restructuring, the Company's CDMA business maintained stable revenues by actively promoting various theme-based marketing programs and offering differentiated and customized mobile terminals. As of 30 June 2008, the total number of CDMA subscribers reached 43.169 million, a net addition of 1.242 million in the first half of 2008. The average MOU per subscriber per month for CDMA was 243.0 minutes, representing a decrease of 23.4 minutes from 266.4 minutes in the first half of last year. The APRU was RMB51.1, representing a decline of RMB6.0 from RMB57.1 in the first half of last year. The CDMA monthly average churn rate was 2.75% in the first half of this year.

2. Mobile Value-added Business

In the first half of 2008, while continuing to increase the penetration of SMS and "Cool Ringtone" services, the Company targeted GPRS services as a new growth area. By increasing GPRS service coverage and launching new wireless applications such as "Stock in Palm", wireless data revenues continued to grow.

SMS services continued to grow strongly. In the first half of 2008, GSM SMS volume reached 38.06 billion, representing an increase of 6.9% over the same period of last year, and CDMA SMS volume reached 9.95 billion messages, representing an increase of 7.2% over the same period of last year.

The penetration of "Cool Ringtone" service further increased. As of 30 June 2008, GSM "Cool Ringtone" subscribers reached 42.285 million with a net addition of 4.334 million, and a penetration rate of 33.1%. CDMA "Cool Ringtone" subscribers reached 12.222 million with a net addition of 39,000, and a penetration rate of 28.3%.

The GPRS business grew rapidly. As of 30 June 2008, the GPRS network had achieved nationwide coverage in all 31 provinces, established roaming partnership with 20 GPRS operators in 12 overseas countries. For the first half of 2008, total GPRS subscribers reached 22.046 million, with a net addition of 13.153 million and penetration rate of 17.3%. GPRS revenues reached RMB 0.45 billion.

For CDMA 1X wireless data services, the number of "U-Net" subscribers continued to grow. As of 30 June 2008, "U-Net" subscribers totaled 2.338 million, "U-Net" revenues increased 29.3% compared with the same period of last year, and CDMA 1X wireless data revenues, as percentage of CDMA service revenue, reached 12.3%, significantly higher than that of the first half of last year.

3. Long Distance, Data and Internet Businesses

In the first half of 2008, the long distance, data and internet businesses underwent business transformations, focusing on improving profitability and they achieved steady growth by further developing data business, internet applications and enterprise information services.

Traditional data and domestic long distance voice business declined. In the first half of 2008, outgoing domestic and international long distance calls totaled 9.39 billion minutes, representing a decrease of 20.5% compared with the same period of last year. Incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, amounted to 2.24 billion minutes, representing an increase of 20.1% compared with the same period of last year.

The Company's long distance data leased-line business grew steadily. As of 30 June 2008, the total circuit leased line bandwidth was 64,000 x 2Mbps, and the total leased bandwidth based on Asynchronous Transfer Mode (ATM) and Frame Relay (FR) services was 8,635 x 2Mbps. The total subscribers of "Uni-Video" broadband video telephony service reached 441,000.

New internet applications and enterprise information services continued to be rolled out during the first half of 2008. As of 30 June 2008, the number of internet broadband subscribers reached 813,000. The number of internet "Ruyi" Mailbox subscribers totaled 12.917 million. The number of "Ruyi" virus-killing subscribers reached 520,000.

4. Distribution Channel and Customer Services

In the first half of 2008, the Company has improved its distribution channel infrastructure on many levels, aiming to improve channel capabilities. The Company's brand image and customer perceptions have been improved by placing product promotional self-service systems in the sales outlets. Channel capability for marketing products and services to end users has also been strengthened. The Company has fully expanded its electronic online sales channels, and has opened industry-leading unified online sales outlets. The online outlet provides inquiry services to customers electronically, and will roll out transactional services such as online payment, charging, and card purchase.

The Company has followed a business philosophy of "Customer Focus, Service-driven Development". By initiating the "Olympic Year of Unicom's Services" marketing program, the Company strived to fulfill its service commitment, and achieve continued service innovation. By deploying large scale bonus-point redemption program and providing customized membership services, the Company has improved customer loyalty and customer retention. The Company has also initiated a remote recharge service based on "recharge nationwide no matter where you buy the card" capability by providing secure and convenient top-up payment services for prepaid customers. As a result, customer satisfaction has been further improved.

Note 1: On 2 June 2008, the Company, the Company's wholly-owned subsidiary, China Unicom Corporation Limited ("CUCL") and China Telecom Corporation Limited ("China Telecom") entered into the CDMA business framework agreement whereby CUCL will sell, and China Telecom will purchase, the CDMA Business. (Please refer to the Announcement on (1) Proposed Disposal of the CDMA Business by Unicom to Telecom (2) Proposed Major Transaction (3) Possible Connected Transaction and (4) Resumption of Trading issued on 2 June 2008). According to the above framework agreement and the progress of negotiations made between China Telecom and the Company, in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") 5, "Non-Current Assets Held for Sale and Discontinued Operations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the management of the Company presented the proposed disposal of assets and liabilities on the unaudited condensed consolidated interim balance sheet as at 30 June 2008 as assets and liabilities classified as held for sale. In addition, the management of the Company recognised the CDMA business segment as discontinued operations, accordingly, profit from discontinued operations are presented separately in the unaudited condensed consolidated interim income statement for the six months ended 30 June 2008. The 2007 comparative figures of the unaudited condensed consolidated interim income statement and cash flow statement were also restated accordingly. For details, please refer to Note 20 to unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.

Note 2: Upon the adoption of HKFRS in 2005, merger accounting is used by the Group to account for the combination of entities and businesses under common control in accordance with HKFRS 3 "Business Combinations" and Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA. Accordingly, the results of operations and financial position of Guizhou Business are included in the consolidated financial statements of the Group as if they were always part of the Group from the beginning of the earliest period presented. As a result, comparative figures have been restated. For details, please refer to Note 2 to unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.

Note 3: The unrealised loss on changes in fair value of derivative component of convertible bonds of the same period last year was approximately RMB1.64 billion. Since SK Telecom Co. Ltd. had fully converted the convertible bonds into the Company's shares in August 2007, as a result, the Company no longer needs to recognise the changes in fair value of derivative component of convertible bonds from that date onwards.

Note 4: EBITDA represents profit for the period before interest income, financial gain/costs, other gains-net, income tax and depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditures and financial gain/costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, we believe EBITDA may be helpful in analyzing the operating results of a telecommunications service operator like our Company.

Although EBITDA has been widely applied in the global telecommunications industry as indicator to reflect the operating performance, financial capability and liquidity, it should be considered in addition to, and is not a substitute for or superior to, the measure of financial performance prepared under generally accepted accounting principles ("GAAP") as it does not have any standardised meaning under GAAP and is not regarded as measures of operating performance and liquidity under GAAP. In addition, it may not be comparable to similar indicators provided by other companies.

Note 5: The new enterprise income tax law is effective from 1 January 2008 and the enterprise income tax rate is changed from 33% to 25%. The effective tax rate of continuing operations for the first half of 2008 was 26.6% while the effective tax rate for the same period of last year was 47.0%.

Note 6: Liabilities-to-assets ratio represents total liabilities over total assets.

Note 7: Debt-to-capitalisation ratio represents interest bearing debts plus minority interest over interest bearing debts plus total equity.

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2008
(All amounts in Renminbi ("RMB") thousands)

	Note	Unaudited 30 June 2008	Audited 31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	5	**109,737,056**	116,162,165
Goodwill		**2,770,983**	3,143,983
Other assets	6	**9,970,088**	12,855,199
Deferred income tax assets	7	**410,696**	426,902
		122,888,823	132,588,249
Current assets			
Inventories	8	**813,438**	2,528,364
Accounts receivable, net	9	**2,307,728**	3,211,154
Prepayments and other current assets	10	**1,842,109**	3,516,279
Amounts due from related parties	21.1	**87,234**	109,096
Amounts due from Domestic Carriers	21.2	**172,937**	149,736
Short-term bank deposits		**140,795**	644,016
Cash and cash equivalents		**6,734,234**	6,675,476
		12,098,475	16,834,121
Assets classified as held for sale	20	**11,512,479**	—
Total assets		**146,499,777**	149,422,370
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	**1,439,451**	1,436,908
Share premium	11	**64,553,493**	64,320,066
Reserves		**3,965,458**	3,968,515
Retained profits			
– Proposed 2007 final dividend	19	**—**	2,726,858
– Others		**29,175,469**	24,760,833
		99,133,871	97,213,180
Minority interest in equity		**4,824**	3,914
Total equity		**99,138,695**	97,217,094

(All amounts in RMB thousands)

	Note	**Unaudited 30 June 2008**	Audited 31 December 2007
LIABILITIES			
Non-current liabilities			
Long-term bank loans	12	**1,571,816**	1,660,921
Obligations under finance leases		**2,618**	3,882
Deferred income tax liabilities	7	**5,317**	5,864
Deferred revenue		**619,170**	1,303,015
		2,198,921	2,973,682
Current liabilities			
Payables and accrued liabilities	13	**26,476,256**	32,031,307
Taxes payable		**1,090,805**	1,239,512
Amounts due to Unicom Group	21.1	**18,996**	820,699
Amounts due to related parties	21.1	**816,079**	769,558
Amounts due to Domestic Carriers	21.2	**669,394**	600,283
Current portion of long-term bank loans	12	**2,057,724**	2,191,382
Current portion of obligations under finance leases		**266**	1,448
Advances from customers		**6,538,550**	11,577,405
Dividends payable	19	**149,000**	—
		37,817,070	49,231,594
Liabilities classified as held for sale	20	**7,345,091**	—
Total liabilities		**47,361,082**	52,205,276
Total equity and liabilities		**146,499,777**	149,422,370
Net current liabilities		**(21,551,207)**	(32,397,473)
Total assets less current liabilities		**101,337,616**	100,190,776

The notes on pages 16 to 57 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008
(All amounts in RMB thousands, except per share data)

		Unaudited	
		Six months ended 30 June	
	Note	**2008**	2007 (As restated) (Note 2)
Continuing operations			
Revenue (Turnover)			
GSM business	4, 14, 21	**32,499,400**	31,289,317
Data and internet business	4, 14, 21	**1,592,356**	1,550,334
Long Distance business	4, 14, 21	**1,028,070**	930,012
Total service revenue		**35,119,826**	33,769,663
Sales of telecommunications products	4, 14	**15,396**	4,136
Total revenue	4, 14	**35,135,222**	33,773,799
Leased lines and network capacities	15, 21	**(356,923)**	(310,429)
Interconnection charges	21	**(4,494,345)**	(4,092,501)
Depreciation and amortisation	15	**(10,972,659)**	(11,043,693)
Employee benefit expenses	16	**(2,792,343)**	(2,600,405)
Selling and marketing	15, 21	**(5,356,823)**	(5,179,412)
General, administrative and other expenses	15, 21	**(5,949,614)**	(5,512,887)
Cost of telecommunications products sold		**(304,387)**	(109,186)
Financial gain	15	**109,183**	29,804
Interest income		**71,309**	98,441
Unrealised loss on changes in fair value of derivative component of convertible bonds		**—**	(1,638,735)
Other gains – net		**42,498**	16,639
Profit before income tax		**5,131,118**	3,431,435
Income tax expenses	7	**(1,365,657)**	(1,613,056)
Profit from continuing operations		**3,765,461**	1,818,379
Discontinued operations			
Profit from discontinued operations	4, 20	**654,767**	359,600
Profit for the period		**4,420,228**	2,177,979
Attributable to:			
Equity holders of the Company		**4,419,318**	2,177,291
Minority interest		**910**	688
		4,420,228	2,177,979
Earnings per share for profit attributable to the equity holders of the Company			
– basic (RMB)	18	**0.324**	0.172
– diluted (RMB)	18	**0.321**	0.170
Earnings per share for profit from continuing operations attributable to the equity holders of the Company			
– basic (RMB)	18	**0.276**	0.143
– diluted (RMB)	18	**0.273**	0.142
Earnings per share for profit from discontinued operations attributable to the equity holders of the Company			
– basic (RMB)	18	**0.048**	0.029
– diluted (RMB)	18	**0.048**	0.028

The notes on pages 16 to 57 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2008
(All amounts in RMB thousands)

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Employee share-based compensation reserve	Revaluation reserve	Statutory reserves	Other reserve	Retained profits	Total	Minority interest	Total equity
Balance at 1 January 2007	1,344,440	53,222,976	264,173	272,054	3,018,703	452,507	21,286,471	79,861,324	2,841	79,864,165
Profit for the period	—	—	—	—	—	—	2,177,291	2,177,291	688	2,177,979
Net income and expense recognised directly in equity	—	—	—	26,844	—	—	—	26,844	—	26,844
Total recognised income and expense for the period	—	—	—	26,844	—	—	2,177,291	2,204,135	688	2,204,823
Transfer of retained profits to other reserve due to Business Combination under common control (Note 1)	—	—	—	—	—	47,023	(47,023)	—	—	—
Employee share option scheme:										
– Value of employee services	—	—	71,193	—	—	—	—	71,193	—	71,193
– Recognition of share issued on exercise of options (Note 11)	2,632	166,920	(27,295)	—	—	—	—	142,257	—	142,257
Dividends relating to 2006 (Note 19)	—	—	—	—	—	—	(2,284,942)	(2,284,942)	—	(2,284,942)
Balance at 30 June 2007 (As restated)	1,347,072	53,389,896	308,071	298,898	3,018,703	499,530	21,131,797	79,993,967	3,529	79,997,496
Balance at 1 January 2008	**1,436,908**	**64,320,066**	**363,167**	**301,536**	**3,737,048**	**(433,236)**	**27,487,691**	**97,213,180**	**3,914**	**97,217,094**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**4,419,318**	**4,419,318**	**910**	**4,420,228**
Net income and expense recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total recognised income and expense for the period	**—**	**—**	**—**	**—**	**—**	**—**	**4,419,318**	**4,419,318**	**910**	**4,420,228**
Employee share option scheme:										
– Value of employee services	**—**	**—**	**34,318**	**—**	**—**	**—**	**—**	**34,318**	**—**	**34,318**
– Recognition of share issued on exercise of options (Note 11)	**2,543**	**233,427**	**(37,375)**	**—**	**—**	**—**	**—**	**198,595**	**—**	**198,595**
Dividends relating to 2007 (Note 19)	**—**	**—**	**—**	**—**	**—**	**—**	**(2,731,540)**	**(2,731,540)**	**—**	**(2,731,540)**
Balance at 30 June 2008	**1,439,451**	**64,553,493**	**360,110**	**301,536**	**3,737,048**	**(433,236)**	**29,175,469**	**99,133,871**	**4,824**	**99,138,695**

The notes on pages 16 to 57 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2008
(All amounts in RMB thousands)

		Unaudited	
		Six months ended 30 June	
	Note	**2008**	2007 (As restated) (Note 2)
Continuing operations			
Net cash inflow from operating activities		**14,222,761**	16,621,448
Net cash outflow from investing activities		**(10,338,534)**	(10,535,669)
Net cash outflow from financing activities		**(2,383,945)**	(10,247,316)
Net cash inflow/(outflow) from continuing operations		**1,500,282**	(4,161,537)
Net cash inflow from discontinued operations	20	**1,125,964**	980,461
Increase/(decrease) in cash and cash equivalents		**2,626,246**	(3,181,076)
Cash and cash equivalents at beginning of period		**6,675,476**	12,243,191
Less: Cash and cash equivalents included in the disposal group	20	**(2,567,488)**	—
Cash and cash equivalents at end of period		**6,734,234**	9,062,115
Analysis of the balances of cash and cash equivalents:			
Cash balances		**2,936**	3,229
Bank balances		**6,731,298**	9,058,886
		6,734,234	9,062,115

The notes on pages 16 to 57 are an integral part of this unaudited condensed consolidated interim financial information.

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 businesses are hereinafter collectively referred to as the "Cellular Business". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of its registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited on 22 June 2000 and the American Depositary Shares ("ADS") 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 interests 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.

Purchase of assets and business of Guizhou branch of Unicom Group (hereinafter referred to as "Business Combination")

Pursuant to an asset transfer agreement entered between China Unicom Corporation Limited ("CUCL", a subsidiary of the Company) and Unicom Group on 16 November 2007, CUCL agreed to purchase the GSM cellular telecommunication assets and business, and the CDMA cellular telecommunication business (operated through a leasing of CDMA network capacity from Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon", a wholly-owned subsidiary of Unicom Group)) of Guizhou branch of Unicom Group ("Guizhou Business") at a cash consideration of RMB880 million. The consideration for the Business Combination was determined with reference to the results of a business valuation using methods commonly used in capital market transactions in the telecommunications industry and the negotiations between the parties. In addition, pursuant to the asset transfer agreement, the profit or loss of the Guizhou Business for the period from 31 December 2006 to the effective date of the Business Combination was transferred to Unicom Group.

The aforementioned Business Combination became effective on 31 December 2007, when all the conditions to the Business Combination were satisfied and cash consideration was settled by CUCL. Upon the completion of the Business Combination, the cellular telecommunications business operations of CUCL have been expanded to all provinces, cities and autonomous regions in the PRC. The Company has adopted merger accounting to account for this business combination of entities and businesses under the common control of Unicom Group. Please refer to Note 2 for details.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Proposed disposal of the Group's CDMA business to China Telecom Corporation Limited ("China Telecom")

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

In addition, the Group has been notified by Unicom Group that, on 2 June 2008, Unicom Group, Unicom New Horizon and China Telecommunications Corporation ("China Telecom Group") entered into a framework agreement which sets out the key terms and conditions on which Unicom Group and Unicom New Horizon will sell their CDMA cellular telecommunications network to China Telecom Group for a consideration of RMB66.2 billion. It is expected that this proposed CDMA network disposal will be completed concurrent with the proposed CDMA business disposal.

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

In addition, the Group has been notified by Unicom Group that on 27 July 2008, Unicom Group, Unicom New Horizon and China Telecom Group entered into the CDMA network disposal agreement, which sets out the terms and conditions on which Unicom Group and Unicom New Horizon will sell, and China Telecom Group will purchase, the CDMA network at a consideration of RMB66.2 billion. Completion of the CDMA network disposal is also expected to occur on the same date as the completion of the CDMA Business disposal.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Proposed disposal of the Group's CDMA business to China Telecom Corporation Limited ("China Telecom") (continued)

The aforementioned proposed disposal of CDMA Business is subject to various conditions, including, among other things: (i) approval by the shareholders of the A Share Company for the proposed disposal of the CDMA Business, and approval by the non-affiliated shareholders of the A Share Company for the waiver of CDMA network purchase option and the termination of 2006 CDMA Lease Agreement (please refer to Note 4.2(c) of the Company's 2007 Annual Report for details); (ii) approval by the shareholders of the Company for the proposed disposal of the CDMA Business, and approval by the independent shareholders of the Company for the transfer agreement entered between the A Share Company and CUCL pursuant to which A Share Company has agreed to transfer all of its rights and obligations under the waiver of CDMA network purchase option and the termination of 2006 CDMA Lease Agreement to CUCL (the "Transfer Agreement"); (iii) the necessary procedures required by applicable law and/or required by the relevant binding agreements or documents of CUCL having been performed in accordance with the requirements of the completion plan as set out in the CDMA Business Disposal Agreement; (iv) receipt of any other regulatory or corporate approvals that are necessary for the completion of the proposed disposal of the CDMA Business; and (v) the business and assets identification and specific revenue due diligence having been completed and the results of such identification and due diligence having been jointly confirmed. The extraordinary general meeting of the shareholders of the Company for approving the above Disposal Agreement and the Transfer Agreement will be held on 16 September 2008.

Proposed merger between the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") by way of a scheme of arrangement of China Netcom

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

Pursuant to the aforementioned share proposal and ADS proposal, each holder of China Netcom share and China Netcom ADS will be entitled to receive 1.508 new ordinary shares and 3.016 new ADSs of the Company, respectively, for every China Netcom share and China Netcom ADS. For the option proposal, the Company will establish a new option plan, and each holder of China Netcom option will be entitled to receive new options of the Company to acquire the Company's shares in exchange for their outstanding China Netcom options (whether vested or not). The grant of these options will be based on a formula that values the new options of the Company to be received by a holder of China Netcom options being equivalent to the "see-through" price of that holder's outstanding China Netcom options. The effectiveness of the above proposals and the Scheme is subject to the various conditions, including, among other things: (i) the approval of the Company's shareholders for (a) the proposals, (b) the allotment and issue by the Company's shares pursuant to the share proposal and the ADS proposal and (c) the adoption of a new option scheme for issuance of options under the option proposal; (ii) the approval of the Scheme by the requisite majority of shareholders of China Netcom at a meeting of the shareholders of China Netcom to be convened at the direction of the High Court of Hong Kong for the approval of the Scheme.

On 13 August 2008, the Company made a further announcement, please refer to Note 23.2 for details. The extraordinary general meeting of the shareholders of the Company for the resolutions described in (i) above will be held on 16 September 2008.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 and 2007 have not been audited by the auditors, and the financial information for the year ended 31 December 2007 are extracted from the audited financial statements as set out in the Company's 2007 Annual Report. The accounting policies and estimates adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in preparing the annual financial statements for the year ended 31 December 2007 except that the Group applied HK(IFRIC)-Int 11 "Group and treasury share transactions" on 1 January 2008 retrospectively, subject to the transitional provisions of Hong Kong Financial Reporting Standard ("HKFRS") 2 "Share-based Payment". The adoption of HK(IFRIC)-Int 11 does not have any impact on the Group's unaudited condensed consolidated interim results. Please refer to Note 3 for details. In addition, the Group changed the accounting estimate on provision for subscriber points expenses for certain provincial branches, where there were stabilised and reliable historical redemption statistics available. Please refer to Note 13 for details.

Business Combination

Since the Group and Guizhou Business were both under the common control of Unicom Group prior to the Business Combination, the purchase of Guizhou Business in 2007 is considered as a business combination of entities and businesses under common control, which has been accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA in November 2005. The acquired assets and liabilities of Guizhou Business are stated at historical costs, and are included in the unaudited condensed consolidated interim financial information from the beginning of the earliest period presented as if the Guizhou Business had always been part of the Group. As a result, the 2007 comparative figures in the unaudited condensed consolidated interim financial information have been restated accordingly.

Discontinued Operations

Based on the Framework Agreement dated 2 June 2008, in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA ("HKFRS 5"), the assets and liabilities of the CDMA Business disposal group, which includes the assets and liabilities of CDMA business segment of the Group, as well as certain other telecommunications network assets and other assets in certain regions (including certain jointly used CDMA base stations/auxiliary facilities and sales offices which will also be sold to China Telecom), have been classified as held for sale and are carried at the lower of their carrying amount and fair value less costs to sell since their carrying amount will be recovered principally through a sales transaction rather than through continuing use since 2 June 2008. The scope and net carrying value of such network assets and other assets are estimated based on the initial agreement between the Group and China Telecom, which may be different from the value of the detailed items of the CDMA Business to be delivered to China Telecom and will be agreed and finalised on or before the delivery date in accordance with the completion plan set out in the Disposal Agreement.

In addition, in accordance with HKFRS 5, the results and cash flows of the operations of the CDMA business segment of the Group have been presented as discontinued operations in the unaudited condensed consolidated interim income statement and cash flow statement of the Group for the six months ended 30 June 2008, and the 2007 comparative figures for the unaudited condensed consolidated interim income statement and cash flow statement were also re-presented as discontinued operations accordingly. For details, please refer to Note 20.

(All amounts in RMB thousands unless otherwise stated)

2. BASIS OF PREPARATION (continued)

Discontinued Operations (continued)

The impact of the restatements of 2007 comparative financial information in connection with the Business Combination and the proposed disposal of the CDMA Business are summarised below:

	The Group (as previously reported)	Guizhou Business (Business Combination)	CDMA business (discontinued operations)	Elimination	The Group (continuing operations)
For the six months ended 30 June 2007					
Results of operations:					
Revenue (Turnover)	49,174,762	683,571	(15,893,221)	(191,313)	33,773,799
Profit for the period	2,130,956	47,023	(359,600)	—	1,818,379
Basic earnings per share (RMB)	0.168	—	—	—	0.143

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007. The Group's policies on financial risk management, including the management of credit risk, liquidity risk, cash flow and fair value interest rate risk and foreign exchange risk, as well as capital risk management, are set out in the Company's 2007 Annual Report.

As at 30 June 2008, the current liabilities of the Group exceeded the current assets by approximately RMB21.6 billion (31 December 2007: RMB32.4 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 unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2008 have been prepared under the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies adopted in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2007.

(a) The following new interpretation is mandatory for the financial year ending 31 December 2008 and are applicable to the Group's operations

- HK(IFRIC)-Int 11, "Group and treasury share transactions" (effective for annual periods beginning on or after 1 March 2007 with retrospective application, subject to the transitional provision of HKFRS 2), provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. In previous years, the Company granted certain share options to its subsidiaries' employees and recognised the share-based compensation cost in accordance with the transitional provision of HKFRS 2. Upon the adoption of HK(IFRIC)-Int 11, equity-settled share-based compensation plan in which the Company grants share options to subsidiaries' employees are accounted for as an increase in the value of investments in the subsidiaries in the Company's balance sheet which is eliminated on consolidation. Accordingly, the share-based compensation cost previously recognised by the Company of approximately RMB68 million for the six months ended 30 June 2007 was allocated to the subsidiaries and the related business segments. The segment information for the six months ended 30 June 2007 has been restated to reflect the effect of the adoption of HK(IFRIC)-Int 11.

(b) The following interpretations are mandatory for the financial year ending 31 December 2008 but are not relevant to the Group's operations

- HK(IFRIC)-Int 12, "Service concession arrangements" (effective for annual periods beginning on or after 1 January 2008).

- HK(IFRIC)-Int 14, "The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective for annual periods beginning on or after 1 January 2008).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted by the Group

- HKFRS 2 (Amendment), "Share-based payment vesting conditions and cancellations" (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have significant impact on the Group's consolidated financial statements.

- HKFRS 8, "Operating segments" (effective for annual periods beginning on or after 1 January 2009), replaces HKAS 14 and aligns segment reporting with the requirements of the Statement of Financial Accounting Standards No.131, "Disclosures about segments of an enterprise and related information" issued by the Financial Accounting Standards Board. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. This standard is not expected to have any significant impact on the classification and presentation of the Group's consolidated financial statements.

- (Revised) HKFRS 3 "Business combination" (effective prospectively for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements of a business are 'capable of being conducted' rather than 'are conducted and managed'. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Management is currently assessing the impact of the new requirements for acquisition accounting and consolidation on the Group.

- (Revised) HKAS 1, "Presentation of financial statements" (effective for annual periods beginning on or after 1 January 2009). The revised HKAS 1 affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosures of specific transactions and other events required by other HKFRS. Management is currently assessing the impact of (Revised) HKAS 1 on the Group's consolidated financial statements but the probable key impact will be on the manner in which the Group presents its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted by the Group (continued)

- HKAS 23 (Amendment), "Borrowing costs" (applied to borrowing cost related to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. HKAS 23 (Amendment) is not expected to have a material impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 13, "Customer loyalty programmes" (effective for annual periods beginning on or after 1 July 2008), clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free services/ products), the arrangement is a multiple-element arrangement and the consideration received or receivable from the customer is allocated between the components of the arrangement using fair values. Management is currently assessing the impact of HK(IFRIC)-Int 13 on the Group's operations and consolidated financial statements.

- (Revised) HKAS 27 "Consolidated and separate financial statements" (effective for annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets, liabilities and related equity components of the former subsidiary are derecognised, with any gain or loss recognised in income statement. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply (Revised) HKAS 27 from 1 January 2010.

(d) The following amendments to standards have been issued but are not yet effective and not relevant for the Group's operations

- HKAS 32 (Amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009). HKAS 32 (Amendment) is not relevant to the Group as the Group does not have any puttable instruments.

4. 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:

Continuing operations:

- GSM business — the provision of GSM telephone and other related services;
- 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.

Discontinued operations:

- CDMA business — the provision of CDMA telephone and related services, through a leasing arrangement for CDMA network capacity from Unicom New Horizon (Note 20 and 21.1(a));

The Group's primary measure of segment results for continuing operations is based on segment profit or loss before income tax. Unallocated costs primarily represent corporate expenses, unrealised loss on changes in fair value of derivative component of convertible bonds and income tax expense whilst unallocated income mainly represents interest income, which 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.

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.1 Business Segments

	Unaudited Six months ended 30 June 2008							
	Continuing operations						Discontinued operations	
	GSM business	Data and internet business	Long Distance business	Unallocated amounts	Elimination	Total continuing operations	CDMA business	Total
Revenue (Turnover):								
Usage fee	17,633,360	1,035,110	353,120	—		19,021,590	6,103,566	25,125,156
Monthly fee	3,218,929	—	—	—		3,218,929	2,037,238	5,256,167
Interconnection revenue	3,439,935	10,899	254,672	—		3,705,506	1,052,461	4,757,967
Leased lines rental	—	303,210	414,801	—		718,011	—	718,011
Value-added services revenue	7,844,996	236,300	—	—		8,081,296	3,585,757	11,667,053
Other revenue	362,180	6,837	5,477	—		374,494	330,420	704,914
Total services revenue	32,499,400	1,592,356	1,028,070	—		35,119,826	13,109,442	48,229,268
Sales of telecommunications products	15,322	74	—	—		15,396	2,422,960	2,438,356
Total revenue from external customers	32,514,722	1,592,430	1,028,070	—		35,135,222	15,532,402	50,667,624
Intersegment revenue	—	664,765	620,776	—	(1,285,541)	—	—	—
Total revenue	32,514,722	2,257,195	1,648,846	—	(1,285,541)	35,135,222	15,532,402	50,667,624
Leased lines and network capacities	(109,582)	(221,323)	(26,018)	—		(356,923)	(4,144,017)	(4,500,940)
Interconnection charges	(5,365,403)	(82,970)	(331,513)	—	1,285,541	(4,494,345)	(1,314,981)	(5,809,326)
Depreciation and amortisation	(9,475,659)	(1,134,394)	(362,532)	(74)		(10,972,659)	(289,460)	(11,262,119)
Employee benefit expenses	(2,369,058)	(263,907)	(142,044)	(17,334)		(2,792,343)	(1,039,014)	(3,831,357)
Selling and marketing	(4,922,879)	(312,746)	(121,186)	(12)		(5,356,823)	(4,138,930)	(9,495,753)
General, administrative and other expenses	(5,264,775)	(395,535)	(219,933)	(69,371)		(5,949,614)	(1,746,807)	(7,696,421)
Cost of telecommunications products sold	(301,887)	(2,487)	(13)	—		(304,387)	(1,990,467)	(2,294,854)
Financial gain/(costs)	372,077	23,148	28,910	(599,332)	284,380	109,183	(2,523)	106,660
Interest income	44,385	5,191	1,815	304,298	(284,380)	71,309	6,946	78,255
Other gains – net	38,149	791	3,111	447		42,498	8,950	51,448
Segment profit (loss) before income tax	5,160,090	(127,037)	479,443	(381,378)		5,131,118	882,099	6,013,217
Income tax expenses						(1,365,657)	(227,332)	(1,592,989)
Profit for the period						3,765,461	654,767	4,420,228
Attributable to:								
Equity holders of the Company						3,765,461	653,857	4,419,318
Minority interest						—	910	910
						3,765,461	654,767	4,420,228
Other information:								
Provision for doubtful debts	685,791	31,349	12,671	—		729,811	214,308	944,119
Capital expenditures for segment assets (a)	4,477,187	701,014	946,915	1,180,162		7,305,278	—	7,305,278

	Unaudited As at 30 June 2008						
	GSM business	CDMA business	Data and internet business	Long Distance business	Unallocated amounts	Elimination	Total
Total segment assets	109,392,564	9,157,757	7,908,047	17,687,296	52,644,644	(50,290,531)	146,499,777
Total segment liabilities	30,219,849	7,345,091	2,576,636	3,465,833	3,753,673		47,361,082

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.1 Business Segments (continued)

	Unaudited Six months ended 30 June 2007 (As restated)							
	Continuing operations						Discontinued operations	
	GSM business	Data and internet business	Long Distance business	Unallocated amounts	Elimination	Total continuing operations	CDMA business	Total
Revenue (Turnover):								
Usage fee	17,762,799	1,152,390	406,631	—		19,321,820	6,497,777	25,819,597
Monthly fee	3,642,487	—	—	—		3,642,487	2,360,536	6,003,023
Interconnection revenue	2,883,681	19,234	202,318	—		3,105,233	997,419	4,102,652
Leased lines rental	—	250,074	317,886	—		567,960	—	567,960
Value-added services revenue	6,453,903	122,921	—	—		6,576,824	3,012,816	9,589,640
Other revenue	546,447	5,715	3,177	—		555,339	349,490	904,829
Total services revenue	31,289,317	1,550,334	930,012	—		33,769,663	13,218,038	46,987,701
Sales of telecommunications products	4,035	101	—	—		4,136	2,675,183	2,679,319
Total revenue from external customers	31,293,352	1,550,435	930,012	—		33,773,799	15,893,221	49,667,020
Intersegment revenue	—	869,732	707,351	—	(1,577,083)	—	—	—
Total revenue	31,293,352	2,420,167	1,637,363	—	(1,577,083)	33,773,799	15,893,221	49,667,020
Leased lines and network capacities	(113,438)	(181,499)	(29,577)	—	14,085	(310,429)	(4,198,304)	(4,508,733)
Interconnection charges	(4,930,669)	(223,997)	(500,833)	—	1,562,998	(4,092,501)	(1,221,524)	(5,314,025)
Depreciation and amortisation	(9,530,313)	(1,149,073)	(364,106)	(201)		(11,043,693)	(312,222)	(11,355,915)
Employee benefit expenses	(2,215,036)	(237,722)	(125,820)	(21,827)		(2,600,405)	(917,473)	(3,517,878)
Selling and marketing	(4,755,839)	(297,124)	(126,439)	(10)		(5,179,412)	(4,276,199)	(9,455,611)
General, administrative and other expenses	(4,907,902)	(335,436)	(255,110)	(14,439)		(5,512,887)	(1,602,557)	(7,115,444)
Cost of telecommunications products sold	(108,771)	(400)	(15)	—		(109,186)	(2,734,486)	(2,843,672)
Financial (costs)/gain	(61,721)	6,855	(2,354)	(244,898)	331,922	29,804	(10,547)	19,257
Interest income	59,347	11,715	3,934	355,367	(331,922)	98,441	5,265	103,706
Unrealised loss on changes in fair value of derivative component of convertible bonds	—	—	—	(1,638,735)		(1,638,735)	—	(1,638,735)
Other gains – net	16,383	98	158	—		16,639	1,105	17,744
Segment profit (loss) before income tax	4,745,393	13,584	237,201	(1,564,743)		3,431,435	626,279	4,057,714
Income tax expenses						(1,613,056)	(266,679)	(1,879,735)
Profit for the period						1,818,379	359,600	2,177,979
Attributable to:								
Equity holders of the Company						1,818,379	358,912	2,177,291
Minority interest						—	688	688
						1,818,379	359,600	2,177,979
Other information:								
Provision for doubtful debts	682,159	37,251	14,949	—		734,359	204,995	939,354
Capital expenditures for segment assets (a)	4,863,425	957,764	786,865	2,670,349		9,278,403	—	9,278,403

	Audited As at 31 December 2007						
	GSM business	CDMA business	Data and internet business	Long Distance business	Unallocated amounts (As restated)	Elimination (As restated)	Total
Total segment assets	107,735,724	9,885,462	7,985,260	17,573,749	56,650,413	(50,408,238)	149,422,370
Total segment liabilities	32,947,282	9,100,579	2,526,811	3,831,729	3,798,875		52,205,276

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

4. SEGMENT INFORMATION (continued)

4.2 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 the six months ended 30 June 2008 and 2007, 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)

5. PROPERTY, PLANT AND EQUIPMENT

	Unaudited						
	Six months ended 30 June						
	2008						2007 (As restated)
	Buildings	Tele-communications equipment	Office furniture, fixtures and others	Leasehold improvements	Construction-in-progress ("CIP")	Total	Total
Cost or valuation:							
Beginning of period	16,361,061	187,140,538	10,983,736	1,611,603	14,966,240	231,063,178	208,349,408
Additions	35,777	117,929	108,727	—	7,042,845	7,305,278	9,278,403
Transfer from CIP	507,511	3,449,149	851,292	104,331	(4,912,283)	—	—
Disposals	(114,762)	(320,767)	(118,579)	(95,079)	—	(649,187)	(942,812)
Assets classified as held for sale (Note 20)	(1,104,837)	(4,247,186)	(71,237)	(19,801)	(29,554)	(5,472,615)	—
End of period	15,684,750	186,139,663	11,753,939	1,601,054	17,067,248	232,246,654	216,684,999
Representing:							
At cost	3,152,719	186,139,663	11,753,939	1,601,054	17,067,248	219,714,623	204,152,968
At valuation	12,532,031	—	—	—	—	12,532,031	12,532,031
	15,684,750	186,139,663	11,753,939	1,601,054	17,067,248	232,246,654	216,684,999
Accumulated depreciation and impairment:							
Beginning of period	3,826,569	103,676,443	6,504,891	878,803	14,307	114,901,013	95,553,781
Charge for the period	237,195	9,735,232	860,986	146,397	—	10,979,810	11,137,157
Disposals	(106,327)	(230,057)	(114,673)	(95,079)	—	(546,136)	(858,182)
Assets classified as held for sale (Note 20)	(171,465)	(2,623,290)	(22,359)	(7,975)	—	(2,825,089)	—
End of period	3,785,972	110,558,328	7,228,845	922,146	14,307	122,509,598	105,832,756
Net book value:							
End of period	11,898,778	75,581,335	4,525,094	678,908	17,052,941	109,737,056	110,852,243
Beginning of period	12,534,492	83,464,095	4,478,845	732,800	14,951,933	116,162,165	112,795,627

For the six months ended 30 June 2008, interest expense of approximately RMB89 million (for the six months ended 30 June 2007: approximately RMB144 million) was capitalised as construction-in-progress.

(All amounts in RMB thousands unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Buildings of the Group were valued at 31 March 2000 and 31 August 2006 respectively by independent property valuation firms, using the replacement cost or open market value approach, as appropriate. As at 30 June 2008, the accumulated revaluation surplus on the buildings resulting from all previous valuations of the buildings amounted to approximately RMB378 million. The valuation surplus net of the related deferred income tax of approximately RMB76 million (31 December 2007: approximately RMB76 million) was credited to the revaluation reserve in shareholders' equity. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB8.1 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: approximately RMB10.5 million). As at 30 June 2008, the carrying value of buildings would have been approximately RMB11,608 million (31 December 2007: approximately RMB12,236 million) had they been stated at historical cost less accumulated depreciation. The directors of the Company consider the fair values of these buildings were not materially different from their carrying values as at 30 June 2008.

Telecommunications equipment held under finance leases represents wireless public phone equipment. As at 30 June 2008, net book value of wireless public phone equipment under finance leases amounted to approximately RMB63 million which excluded the equipment classified as held for sale with net book value of approximately RMB70 million (31 December 2007: approximately RMB189 million).

For the six months ended 30 June 2008, the Group recognised losses on disposal of property, plant and equipment for continuing operations of approximately RMB86.6 million (for the six months ended 30 June 2007: approximately RMB58.0 million).

In addition, the Board of Directors of the Company proposed to change the accounting policies on buildings and fixed line telecommunications equipment upon completion of the proposed merger between the Company and China Netcom. Please refer to Note 23.2 for details.

6. OTHER ASSETS

	Unaudited 30 June 2008	Audited 31 December 2007
Direct incremental costs for activating subscribers	**617,449**	1,301,112
Customer acquisition costs of contractual CDMA subscribers	**—**	2,349,225
Long-term prepayment for land use rights	**5,930,371**	5,881,167
Purchased software	**1,076,347**	1,020,673
Prepaid rental for premises and leased lines	**1,255,530**	1,233,019
Others	**1,090,391**	1,070,003
	9,970,088	12,855,199

As at 30 June 2008, direct incremental costs for activating CDMA subscribers of approximately RMB424 million and customer acquisition costs for contractual CDMA subscribers of approximately RMB2,639 million have been reclassified to assets held for sale, refer to Note 20 for details.

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION

Provision for taxation for continuing operations represents:

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	**4,250**	4,776
– Outside Hong Kong	**1,616,087**	1,941,709
	1,620,337	1,946,485
Deferred taxation	**(254,680)**	(333,429)
	1,365,657	1,613,056

(a) The Company did not have any assessable income sourced from Hong Kong for the six months ended 30 June 2008 and 2007.

(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 16.5% (for the six months ended 30 June 2007: 17.5%). The income tax liability of Unicom International amounted to approximately RMB4.3 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: approximately RMB4.8 million).

(c) 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 are effective from 1 January 2008 (2007: 33%). However, for entities operating in special economic zones that previously enjoyed preferential tax rates, the applicable tax rate will be increased progressively to 25% over a five-year period.

(d) On 6 December 2007, the State Council issued the detail implementation regulations of the new PRC enterprise income tax law. Pursuant to the regulations, a 5% withholding income tax will be levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign shareholders in Hong Kong. Pursuant to a notice jointly issued by the Ministry of Finance and the State Administration of Taxation on 22 February 2008, where foreign investment enterprises declare dividends in 2008 and beyond out of their cumulative retained profits as at 31 December 2007, such dividends are exempt from withholding income tax. For dividends paid out of profits earned by foreign investment enterprises after 1 January 2008, the 5% withholding income tax will be applicable, unless the investor is deemed as a PRC Tax Resident Enterprise. Currently, the PRC tax authority has not yet announced the formal guidance on the certification procedures of PRC Tax Resident Enterprise. The Company preliminarily concluded that it met the definition of PRC Tax Resident Enterprise after assessment. Therefore, as at 30 June 2008, there is no deferred tax liability accrued in the Group's unaudited condensed consolidated interim financial information for CUCL's undistributed profit generated during the six months ended 30 June 2008. The Group will continue to assess the impact on the financial statements in accordance with the detailed guidance issued by the PRC tax authority in the future.

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION (continued)

(e) Various provincial/municipal branches of CUCL were granted preferential tax treatment by relevant tax authorities to assess their enterprise income tax at the rate of 18% in Mainland China for the six months ended 30 June 2008 (for the six months ended 30 June 2007: 13%-18%). The remaining provincial branches were assessed at the standard tax rate of 25% (for the six months ended 30 June 2007: 33%).

(f) For the six months ended 30 June 2008, Unicom Huasheng and its branches are subject to income tax at the statutory enterprise income tax rate of 25% in Mainland China (for the six months ended 30 June 2007: 33%). From 1 January 2008, the income tax liabilities of Unicom Huasheng is assessed on a consolidated basis and settled centrally in Beijing in accordance with the new PRC enterprise income tax law. In previous years, the enterprise income tax of Unicom Huasheng and its branches were assessed separately by relevant local tax authorities.

(g) Before the Business Combination became effective on 31 December 2007, Guizhou Business was operated by Guizhou branch of Unicom Group. The income tax of Guizhou branch of Unicom Group was reported on a consolidated basis with Unicom Group and no separate tax return was prepared. The accumulated tax losses incurred by Guizhou Business have not been fully recognised by Unicom Group, therefore no income tax expenses were recognised for the Guizhou Business in 2007 or prior years in accounting for the Guizhou Business using merger accounting.

In addition, in accordance with the relevant PRC tax laws and regulations, before the new PRC enterprise income tax law is effective on 1 January 2008, the accumulated tax losses and other temporary differences associated with Guizhou Business carried forward from prior years could not be recognised by CUCL upon the completion of the Business Combination. Accordingly, deferred tax assets and liabilities were not recognised by CUCL in the relevant periods presented in applying merger accounting to the Business Combination of Guizhou Business.

Reconciliation between applicable PRC statutory tax rate and the effective tax rate for continuing operations is as follows:

		Unaudited	
		Six months ended 30 June	
	Note	**2008**	2007 (As restated)
PRC statutory tax rate of 25% (for the six months ended 30 June 2007: 33%)		**25.0%**	33.0%
Non-deductible expenses		**2.3%**	1.0%
Non-deductible recognised loss on changes in fair value of derivative component of convertible bonds		**—**	15.8%
Effect of change of tax rate under new PRC enterprise income tax law	(c)	**—**	(0.1%)
Accumulated tax losses and other temporary differences of Guizhou Business not recognised by the Group	(g)	**—**	(0.4%)
Interest income		**(0.1%)**	(0.2%)
Impact of PRC preferential tax rates		**(0.6%)**	(2.1%)
Effective tax rate		**26.6%**	47.0%

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION (continued)

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

	Note	Unaudited Six months ended 30 June 2008	2007 (As restated)
Net deferred tax assets after offsetting:			
– Beginning of period		**426,902**	309,668
– Deferred tax credited/(charged) to the income statement			
– Continuing operations		**254,133**	332,940
– Discontinued operations		**(72,177)**	59,848
– Deferred tax credited to equity		**—**	26,844
– Assets classified as held for sale	20	**(198,162)**	—
End of period		**410,696**	729,300
The deferred tax liabilities that cannot be offset:			
– Beginning of period		**(5,864)**	(5,879)
– Deferred tax credited to the income statement		**547**	489
End of period		**(5,317)**	(5,390)

8. INVENTORIES

	Unaudited 30 June 2008	Audited 31 December 2007
Handsets	**57,598**	1,587,124
Telephone cards	**490,465**	584,742
Others	**265,375**	356,498
	813,438	2,528,364

As at 30 June 2008, CDMA handsets of approximately RMB854 million have been reclassified to assets held for sale, refer to Note 20 for details.

(All amounts in RMB thousands unless otherwise stated)

9. ACCOUNTS RECEIVABLE, NET

	Unaudited 30 June 2008	Audited 31 December 2007
Accounts receivable for GSM services	**3,610,459**	2,558,757
Accounts receivable for CDMA services	**—**	1,637,100
Accounts receivable for Data and internet services	**275,155**	203,623
Accounts receivable for Long Distance services	**406,301**	440,615
Sub-total	**4,291,915**	4,840,095
Less: Provision for doubtful debts for GSM services	**(1,801,575)**	(1,027,899)
Provision for doubtful debts for CDMA services	**—**	(442,192)
Provision for doubtful debts for Data and internet services	**(117,632)**	(104,218)
Provision for doubtful debts for Long Distance services	**(64,980)**	(54,632)
Sub-total	**(1,984,187)**	(1,628,941)
	2,307,728	3,211,154

The aging analysis of accounts receivable is as follows:

	Unaudited 30 June 2008	Audited 31 December 2007
Within one month	**1,438,791**	1,968,344
More than one month to three months	**813,489**	944,300
More than three months to one year	**1,352,582**	1,519,487
More than one year	**687,053**	407,964
	4,291,915	4,840,095

As at 30 June 2008, accounts receivable and provision for doubtful debts for CDMA services of approximately RMB1,542 million and RMB592 million, respectively, have been reclassified to assets held for sale, refer to Note 20 for details.

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.

(All amounts in RMB thousands unless otherwise stated)

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	Unaudited 30 June 2008	Audited 31 December 2007
Prepaid rental	**607,620**	488,001
Deposits and prepayments	**677,291**	682,206
Advances to employees	**186,339**	132,407
Customer acquisition costs of contractual CDMA subscribers	**—**	508,340
Tax refund on reinvestment in a subsidiary	**72,760**	1,458,715
Others	**298,099**	246,610
	1,842,109	3,516,279

As at 30 June 2008, customer acquisition costs of contractual CDMA subscribers recorded in "prepayments and other current assets" of approximately RMB616 million have been reclassified to assets held for sale, refer to Note 20 for details.

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

	Unaudited 30 June 2008	Audited 31 December 2007
Within one year	**1,788,909**	3,371,984
More than one year	**53,200**	144,295
	1,842,109	3,516,279

11. SHARE CAPITAL

	Unaudited 30 June 2008 HKD'000	Audited 31 December 2007 HKD'000
Authorised:		
30,000,000,000 ordinary shares, par value of HKD0.10 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
Issued and fully paid:					
At 1 January 2007	12,680,989	1,268,098	1,344,440	53,222,976	54,567,416
Employee share option scheme					
– Recognition of shares issued on exercise of options (Note 17)	26,800	2,680	2,632	166,920	169,552
At 30 June 2007	12,707,789	1,270,778	1,347,072	53,389,896	54,736,968
At 1 January 2008	**13,634,290**	**1,363,429**	**1,436,908**	**64,320,066**	**65,756,974**
Employee share option scheme					
– Recognition of shares issued on exercise of options (Note 17)	**28,012**	**2,801**	**2,543**	**233,427**	**235,970**
At 30 June 2008	**13,662,302**	**1,366,230**	**1,439,451**	**64,553,493**	**65,992,944**

Increase of 28,012,000 ordinary shares for the six months ended 30 June 2008 (for the six months ended 30 June 2007: 26,800,000) represented the ordinary shares issued on exercise of share options under the Company's share option schemes (Note 17).

(All amounts in RMB thousands unless otherwise stated)

12. LONG-TERM BANK LOANS

	Interest rates and final maturity	Unaudited 30 June 2008	Audited 31 December 2007
RMB denominated bank loans	Fixed interest rates of 3.60% (for the six months ended 30 June 2007: 3.60% to 5.58%) per annum with maturity through 2010 (31 December 2007: maturity through 2010)		
– unsecured		**200,000**	200,000
USD denominated bank loans	Floating interest rates of USD LIBOR plus interest margin of 0.35% to 0.44% (for the six months ended 30 June 2007: 0.35% to 0.44%) per annum with maturity through 2010 (31 December 2007: maturity through 2010) (a)		
– unsecured		**3,429,540**	3,652,303
Sub-total		**3,629,540**	3,852,303
Less: Current portion		**(2,057,724)**	(2,191,382)
		1,571,816	1,660,921

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

	Unaudited 30 June 2008	Audited 31 December 2007
Balances due:		
– not later than one year	**2,057,724**	2,191,382
– later than two years and not later than five years	**1,571,816**	1,660,921
	3,629,540	3,852,303
Less: Portion classified as current liabilities	**(2,057,724)**	(2,191,382)
	1,571,816	1,660,921

12. LONG-TERM BANK LOANS (continued)

(a) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD700 million. This facility was split into 3 tranches (i) USD200 million 3-year loan; (ii) USD300 million 5-year loan; and (iii) USD200 million 7-year loan and carried an interest rate of 0.28%, 0.35% and 0.44% over US dollar LIBOR per annum for each tranche, respectively. In October 2003, the Company and CUCL entered into an agreement to re-lend such funds to CUCL with similar terms to finance the network construction of CUCL. The Company has fully repaid the USD200 million 3-year loan in 2006.

In addition, the completion of the proposed CDMA Business disposal will give rise to a mandatory prepayment under the terms of the syndicated loan agreement noted above. The reduction in the shareholding of Unicom BVI in the Company following the completion of the Scheme will give rise an event of default under the terms of the syndicated loan agreement. The Company is currently in discussions with its lenders for waivers to be granted in respect of the prepayment and the event of default described above and associated covenants. If such waivers are not granted by the Company's lenders and if either the proposed CDMA Business disposal or the Scheme is completed, the Company will be required to repay the entire principal amount outstanding under the loan facility together with accrued interest on completion of the proposed CDMA Business disposal or the proposed merger with China Netcom. The principal amount outstanding under this loan facility is expected to be US$200 million at the time the proposed CDMA Business disposal or the Scheme is completed and, under the terms of the syndicated loan agreement, such amount is otherwise scheduled for repayment in September 2010.

(b) The effective interest rate of long-term bank loans denominated in RMB at 30 June 2008 was 3.60% (31 December 2007: 3.60%), and the effective interest rates of long-term bank loans denominated in USD at 30 June 2008 ranged from 3.13% to 3.55% (31 December 2007: from 4.95% to 5.04%).

(c) The carrying amount of long-term bank loans approximated their fair values as at balance sheet date.

(All amounts in RMB thousands unless otherwise stated)

13. PAYABLES AND ACCRUED LIABILITIES

	Note	**Unaudited 30 June 2008**	Audited 31 December 2007
Payables to contractors and equipment suppliers		**17,146,586**	20,357,177
Accrued expenses		**2,938,703**	2,681,173
Payables to telecommunications product suppliers		**372,805**	1,863,724
Customer deposits		**1,519,562**	2,188,244
Maintenance expense payable		**1,485,915**	1,394,671
Salary and welfare payables		**816,858**	731,062
Amounts due to services providers/content providers		**993,657**	1,073,820
Provision for subscriber points expenses	(a)	**270,298**	633,608
Others	(b)	**931,872**	1,107,828
		26,476,256	32,031,307

(a) The Group changed the accounting estimate on provision for subscriber points expenses for certain provincial branches, where there were stabilised and reliable historical redemption statistics available. This change of estimate resulted in the reversal of provision for subscriber points expenses for those provincial branches, based on the historical redemption statistics, amounting to approximately RMB92 million for continuing operations and approximately RMB57 million for discontinued operations for the six months ended 30 June 2008.

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

As at 30 June 2008, approximately RMB772 million of payables to telecommunications product supplier, RMB547 million of customer deposits and RMB168 million of provision for subscriber points expenses recorded in "payables and accrued liabilities" have been reclassified to liabilities held for sale, refer to Note 20 for details.

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

	Unaudited 30 June 2008	Audited 31 December 2007
Less than six months	**19,715,262**	24,077,455
Six months to one year	**4,100,197**	5,063,993
More than one year	**2,660,797**	2,889,859
	26,476,256	32,031,307

14. REVENUE (TURNOVER)

Revenue from continuing operations 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 Industry and Information Technology ("MII", the former Ministry of Information Industry has been consolidated into the MII) and the provincial price regulatory authorities.

Revenue from continuing operations is presented net of business tax and government surcharges. Relevant business tax and government surcharges for continuing operations amounted to approximately RMB956 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: approximately RMB914 million).

(All amounts in RMB thousands unless otherwise stated)

15. EXPENSES BY NATURE

The following major expenses are analysed by nature for continuing operations:

	Note	Unaudited Six months ended 30 June 2008	2007 (As restated)
Depreciation on property, plant and equipment		**10,704,383**	10,837,906
Amortisation of other assets		**268,276**	205,787
Total depreciation and amortisation		**10,972,659**	11,043,693
Amortisation of direct incremental costs for activating GSM cellular subscribers		**230,334**	433,056
Provision for doubtful debts:			
– GSM business		**685,791**	682,159
– Data and internet business		**31,349**	37,251
– Long Distance business		**12,671**	14,949
Total provision for doubtful debts	9	**729,811**	734,359
Operating lease charges:			
– Leased lines		**356,923**	310,429
– Others		**751,552**	645,874
Total operating lease expenses		**1,108,475**	956,303
Other expenses:			
– Repair and maintenance		**1,326,575**	1,289,160
– Travelling, entertainment and meeting		**298,573**	289,083
– Power and water charges		**1,211,867**	1,079,807
– Vehicle usage expenses		**274,971**	239,884
– Office and administration expenses		**412,552**	429,908
Financial gain:			
– Interest expense		**106,744**	426,614
Including: Interest expense on convertible bonds		**—**	187,222
– Less: Amounts capitalised in construction-in-progress	5	**(89,301)**	(143,521)
Total interest expense		**17,443**	283,093
– Exchange gain, net		**(152,539)**	(338,046)
– Others		**25,913**	25,149
Total financial gain		**(109,183)**	(29,804)

(All amounts in RMB thousands unless otherwise stated)

16. EMPLOYEE BENEFIT EXPENSES

	Note	Unaudited Six months ended 30 June 2008	2007 (As restated)
Continuing operations:			
Employee benefit expenses			
– Salaries and wages		**2,343,823**	2,038,027
– Contributions to defined contribution pension schemes		**238,156**	206,929
– Contributions to supplementary defined contribution pension schemes		**24,436**	31,493
– Contributions to state-sponsored fund		**125,248**	106,546
– Monetary housing benefit		**—**	13,709
– Other housing benefits		**36,397**	153,073
– Share-based compensation cost	17	**24,283**	50,628
Total		**2,792,343**	2,600,405

17. SHARE OPTION SCHEMES

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 and 11 May 2007.

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

	Unaudited Six months ended 30 June			
	2008		2007	
	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 period	**7.12**	**257,279,600**	6.95	314,256,000
Granted	**—**	**—**	—	—
Forfeited	**6.32**	**(2,070,000)**	5.84	(1,829,200)
Exercised	**7.80**	**(28,012,000)**	5.41	(26,800,000)
Balance, end of period	**7.04**	**227,197,600**	7.10	285,626,800

Employee share options exercised for the six months ended 30 June 2008 resulted in 28,012,000 shares being issued (for the six months ended 30 June 2007: 26,800,000 shares), with exercise proceeds of approximately RMB199 million (for the six months ended 30 June 2007: approximately RMB142 million).

As at 30 June 2008, out of the 227,197,600 outstanding share options (31 December 2007: 257,279,600), 145,909,600 share options (31 December 2007: 92,713,600) were exercisable, and the weighted average exercise price was HKD7.42 (31 December 2007: HKD8.48).

(All amounts in RMB thousands unless otherwise stated)

17. SHARE OPTION SCHEMES (continued)

As at 30 June 2008, information on the 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 30 June 2008	Number of share options outstanding as at 31 December 2007
Share options granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000	22 June 2002 to 21 June 2010	HKD15.42	**16,977,600**	21,126,800
Share options granted under the Share Option Scheme:				
30 June 2001	30 June 2001 to 22 June 2010	HKD15.42	**4,390,000**	5,608,000
10 July 2002	10 July 2003 to 9 July 2008	HKD6.18	**2,048,000**	3,308,000
21 May 2003	21 May 2004 to 20 May 2009	HKD4.30	**9,286,000**	11,092,800
20 July 2004	20 July 2005 to 19 July 2010	HKD5.92	**41,458,000**	50,924,000
21 December 2004	21 December 2005 to 20 December 2010	HKD6.20	**654,000**	654,000
15 February 2006	15 February 2008 to 14 February 2012	HKD6.35	**152,384,000**	164,566,000
			227,197,600	257,279,600

For the six months ended 30 June 2008, employee share-based compensation costs amortised over the vesting periods of the share options for continuing operations amounted to approximately RMB24 million (for the six months ended 30 June 2007: approximately RMB51 million).

(All amounts in RMB thousands unless otherwise stated)

17. SHARE OPTION SCHEMES (continued)

Details of share options exercised for the six months ended 30 June 2008 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective trading days immediately before the exercise of options HKD	Proceeds received HKD	Number of shares involved
22 June 2000	15.42	18.73	63,980,664	4,149,200
30 June 2001	15.42	18.38	18,781,560	1,218,000
10 July 2002	6.18	17.78	7,786,800	1,260,000
21 May 2003	4.30	18.08	7,691,840	1,788,800
20 July 2004	5.92	18.10	55,671,680	9,404,000
15 February 2006	6.35	17.74	64,719,200	10,192,000
			218,631,744	28,012,000

18. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2008 and 2007 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2008 and 2007 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the periods, 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 (for the six months ended 30 June 2007 only). For the purpose of computation of diluted earnings per share for the six months ended 30 June 2007, 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 excluded from the weighted average number of ordinary shares.

18. EARNINGS PER SHARE (continued)

The following table sets forth the computation of basic and diluted earnings per share:

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
Numerator (in RMB thousands):		
Profit attributable to the equity holders of the Company		
– Continuing operations	**3,765,461**	1,818,379
– Discontinued operations	**653,857**	358,912
	4,419,318	2,177,291
Denominator (in thousands):		
Weighted average number of ordinary shares outstanding and shares used in computing basic earnings per share	**13,652,107**	12,690,576
Dilutive equivalent shares arising from share options	**135,042**	105,918
Shares used in computing diluted earnings per share	**13,787,149**	12,796,494
Basic earnings per share (in RMB)		
– Continuing operations	**0.276**	0.143
– Discontinued operations	**0.048**	0.029
	0.324	0.172
Diluted earnings per share (in RMB)		
– Continuing operations	**0.273**	0.142
– Discontinued operations	**0.048**	0.028
	0.321	0.170

(All amounts in RMB thousands unless otherwise stated)

18. EARNINGS PER SHARE (continued)

To enable an investor to better understand the Group's results, below are tables reconciling earnings per share to adjusted earnings per share for the Group and continuing operations respectively, excluding the unrealised loss on changes in fair value of derivative component of convertible bonds for the six months ended 30 June 2007 which is not considered to be an indicator of the Group's operating performance.

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
The Group:		
Profit attributable to equity holders of the Company	**4,419,318**	2,177,291
Adjustment for:		
Unrealised loss on changes in fair value of derivative component of convertible bonds	**—**	1,638,735
Adjusted profit attributable to equity holders (excluding unrealised loss on changes in fair value of derivative component of convertible bonds)	**4,419,318**	3,816,026
Adjusted basic earnings per share (excluding unrealised loss on changes in fair value of derivative component of convertible bonds) (RMB)	**0.324**	0.301
Adjusted diluted earnings per share (excluding unrealised loss on changes in fair value of derivative component of convertible bonds) (RMB)	**0.321**	0.298
Continuing operations:		
Profit from continuing operations attributable to equity holders of the Company	**3,765,461**	1,818,379
Adjustment for:		
Unrealised loss on changes in fair value of derivative component of convertible bonds	**—**	1,638,735
Adjusted profit from continuing operations attributable to equity holders (excluding unrealised loss on changes in fair value of derivative component of convertible bonds)	**3,765,461**	3,457,114
Adjusted basic earnings per share for continuing operations (excluding unrealised loss on changes in fair value of derivative component of convertible bonds) (RMB)	**0.276**	0.272
Adjusted diluted earnings per share for continuing operations (excluding unrealised loss on changes in fair value of derivative component of convertible bonds) (RMB)	**0.273**	0.270

(All amounts in RMB thousands unless otherwise stated)

19. DIVIDENDS

At the annual general meeting held on 16 May 2008, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended 31 December 2007 totaling approximately RMB2,732 million (for the year ended 31 December 2006: approximately RMB2,285 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2008. As at 30 June 2008, such dividends have been paid by the Company, except for dividends payable of approximately RMB149 million due to Unicom BVI.

20. DISPOSAL GROUP AND DISCONTINUED OPERATIONS

Disposal Group

All the assets and liabilities related to the CDMA Business constituted a disposal group and have been presented as held for sale following the entering of the Framework Agreement in accordance with HKFRS 5, these included the assets and liabilities of the CDMA business segment as well as certain telecommunications network assets and other assets in certain regions (including certain jointly used CDMA base stations/auxiliary facilities and sales office which will also be sold to China Telecom). The scope and net carrying value of such network assets and other assets are estimated based on the initial agreement between the Group and China Telecom, which may be different from the value of the detailed items of the CDMA Business to be delivered to China Telecom and will be agreed and finalised on or before the delivery date in accordance with the completion plan set out in the Disposal Agreement.

All the assets and liabilities classified as held for sale were remeasured to the lower of their carrying amount and fair value less costs to sell at the date of their classification on 2 June 2008 as held-for-sale classification and no remeasurement adjustment was recorded as at 30 June 2008. In addition, the property, plant and equipment, direct incremental costs associated with upfront non-refundable revenue included in “other assets”, and deferred CDMA customer acquisition costs included in “other assets” and “prepayments and other current assets” ceased to be depreciated and amortised from 2 June 2008.

As at 30 June 2008, the following assets and liabilities of the disposal group have been classified to the assets and liabilities held for sale in the unaudited condensed consolidated interim balance sheet:

	Unaudited 30 June 2008
Assets classified as held for sale:	
Property, plant and equipment	**2,647,526**
Goodwill	**373,000**
Other assets	**3,066,608**
Deferred income tax assets	**198,162**
Inventories	**1,047,780**
Accounts receivable, net	**949,883**
Prepayments and other current assets	**662,032**
Cash and cash equivalents	**2,567,488**
Total assets of the disposal group	**11,512,479**
Liabilities classified as held for sale:	
Deferred revenue	**391,765**
Payable and accrued liabilities	**1,703,635**
Tax payable	**(10,868)**
Advances from customers	**5,260,559**
Total liabilities of the disposal group	**7,345,091**
Total net assets of the disposal group	**4,167,388**

(All amounts in RMB thousands unless otherwise stated)

20. DISPOSAL GROUP AND DISCONTINUED OPERATIONS (continued)

Discontinued operations

On 2 June 2008, the Group announced the proposed disposal of the CDMA Business (please refer to Note 1 for details). Accordingly, the results and cash flows of the CDMA business segment (including the CDMA business of CUCL, Unicom Huasheng and Unicom Macau) are presented in this unaudited condensed interim income statement and cash flow statement as discontinued operations. In addition, the elimination entries on the intersegment revenue and charges between continuing operations and discontinued operations were recorded against the discontinued operations.

The results of operations of the discontinued operations for the six months ended 30 June 2008 and 2007 are set out below:

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated) (Note 2)
Revenue (Turnover)	**15,532,402**	15,893,221
Leased lines and network capacities	**(4,144,017)**	(4,198,304)
Interconnection charges	**(1,314,981)**	(1,221,524)
Depreciation and amortisation	**(289,460)**	(312,222)
Employee benefit expenses	**(1,039,014)**	(917,473)
Selling and marketing	**(4,138,930)**	(4,276,199)
General, administrative and other expenses	**(1,746,807)**	(1,602,557)
Cost of telecommunications products sold	**(1,990,467)**	(2,734,486)
Financial costs	**(2,523)**	(10,547)
Interest income	**6,946**	5,265
Other gains – net	**8,950**	1,105
Profit before income tax from discontinued operations	**882,099**	626,279
Income tax expenses	**(227,332)**	(266,679)
Profit after income tax from discontinued operations	**654,767**	359,600

The cash flow information of the discontinued operations for the six months ended 30 June 2008 and 2007 is set out below:

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated) (Note 2)
Net cash inflow from operating activities	**1,148,512**	1,002,926
Net cash outflow from investing activities	**(22,548)**	(22,465)
Net cash inflow from financing activities	**—**	—
Net cash inflow from discontinued operations	**1,125,964**	980,461

(All amounts in RMB thousands unless otherwise stated)

20. DISPOSAL GROUP AND DISCONTINUED OPERATIONS (continued)

Discontinued operations (continued)

An analysis of major expenses by nature for discontinued operations is as follows:

		Unaudited	
		Six months ended 30 June	
	Note	**2008**	2007 (As restated)
Depreciation on property, plant and equipment		**275,427**	299,251
Amortisation of other assets		**14,033**	12,971
Total depreciation and amortisation		**289,460**	312,222
Amortisation of direct incremental costs for activating CDMA cellular subscribers		**239,306**	309,417
Amortisation of customer acquisition costs of contractual CDMA subscribers		**1,938,086**	1,868,785
Provision for doubtful debts		**214,308**	204,995
Write-down of inventories to net realisable value		**55,464**	115,776
Operating lease charges:			
– Leased lines		**49,074**	42,530
– CDMA network capacities	21.1	**4,094,943**	4,155,774
– Others		**228,145**	181,347
Total operating lease expenses		**4,372,162**	4,379,651
Other expenses:			
– Repair and maintenance		**245,594**	256,565
– Travelling, entertainment and meeting		**116,304**	91,190
– Power and water charges		**373,029**	335,820
– Vehicle usage expenses		**93,759**	73,091
– Office and administration expenses		**154,860**	137,153

21. RELATED PARTY TRANSACTIONS

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, and 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 network and on transmission lines leased from other Domestic Carriers.

21.1 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 21.2 and 21.3 respectively) and nature of relationship with the Group as at 30 June 2008:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate holding company
Unicom NewSpace Corporation Limited ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Company Limited ("Unicom 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 Company Limited ("Unicom 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")	A subsidiary of Unicom Group
UNISK (Beijing) Information Technology Corporation Limited ("UNISK")	A joint venture company of Unicom Group

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTIONS (continued)

21.1 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.

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
Transactions with Unicom Group and its subsidiaries:		
Continuing operations:		
Interconnection revenues	**11,665**	21,037
Interconnection charges	**823**	3,990
Rental income for premises and facilities	**6,648**	7,247
Charge for operator-based subscriber value-added services by New Guoxin	**146,706**	126,575
Charge for customer services by New Guoxin	**350,860**	327,295
Agency fee incurred for subscriber development services by New Guoxin	**71,151**	26,680
Charge for cellular subscriber value-added services by UNISK and Unicom NewSpace	**57,596**	12,734
Rental charges for premises, equipment and facilities	**17,731**	14,284
Charges for the international gateway services	**4,383**	7,209
Purchase of telecom cards	**390,953**	282,966
Agency fee incurred for procurement of telecommunications equipment	**8,052**	6,835
Charge for engineering design and technical services by CITDCI	**34,113**	23,918
Discontinued operations:		
Interconnection charges	**593**	769
Charge for operator-based subscriber value-added services by New Guoxin	**52,425**	51,008
Charge for customer services by New Guoxin	**75,381**	92,648
Agency fee incurred for subscriber development services by New Guoxin	**16,802**	5,984
CDMA network capacity lease rental	**4,094,943**	4,155,774
Constructed capacity related cost of CDMA network	**159,749**	85,641
Charge for cellular subscriber value-added services by UNISK and Unicom NewSpace	**40,036**	8,851
Purchase of telecom cards	**29,517**	41,281

21. RELATED PARTY TRANSACTIONS (continued)

21.1 Unicom Group and its subsidiaries (continued)

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

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 independent shareholders of the Company on 1 December 2006, and become effective from 1 January 2007. Upon completion of Business Combination, the 2006 Comprehensive Services Agreement and 2006 CDMA Lease Agreement were amended where necessary so that the service area of CUCL is extended to include Guizhou province. In addition, the rights and obligations of Guizhou branch of Unicom Group under the framework agreement entered with Guizhou branch of Unicom Huasheng for the procurement of CDMA mobile handsets on 19 December 2006 were assigned to and assumed by CUCL.

The purchase of Guizhou Business has been accounted for using merger accounting in accordance with AG 5. Accordingly, the transactions between Guizhou branch of Unicom Group and the Group were eliminated and not considered as related party transactions in the unaudited condensed consolidated interim financial information.

(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.

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTIONS (continued)

21.2 Domestic Carriers

(a) *Transactions with Domestic Carriers*

The following is a summary of significant transactions with Domestic Carriers in the ordinary course of business (including discontinued operations):

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
Interconnection revenue	**3,693,328**	3,331,862
Interconnection charges	**5,555,409**	5,086,987
Leased line revenue	**17,938**	18,642
Leased line charges	**181,184**	192,650

(b) *Amounts due from and to Domestic Carriers*

	Unaudited 30 June 2008	Audited 31 December 2007
Amounts due from Domestic Carriers		
– Receivables for interconnection revenue and leased line revenue	**193,695**	170,231
– Less: Provision for doubtful debts	**(20,758)**	(20,495)
	172,937	149,736
Amounts due to Domestic Carriers		
– Payables for interconnection charges and leased line charges	**669,394**	600,283

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

All amounts were attributable to continuing operations.

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTIONS (continued)

21.3 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:

	Unaudited	
	Six months ended 30 June	
	2008	2007 (As restated)
Purchase of CDMA handsets (for discontinued operations)	**18,140**	24,193
Construction and installation fee	**189,920**	173,453
Maintenance and repair expense	**30,392**	23,532
Purchase of equipment	**324,004**	237,822
Line leasing revenue	**330,198**	144,928
Finance income/costs, include:		
– Interest income	**74,383**	94,755
– Interest expense	**3,640**	6,756

(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 unaudited condensed consolidated interim balance sheet are listed as follows:

	Unaudited 30 June 2008	Audited 31 December 2007
Current assets		
Prepayment and other current assets	**44,441**	53,418
Short-term bank deposit	**140,795**	527,885
Cash and cash equivalents	**9,045,055**	6,525,506
Non-current liabilities		
Long-term bank loans	**200,000**	200,000
Current liabilities		
Payables and accrued liabilities	**469,325**	667,749

As at 30 June 2008, cash and cash equivalents of approximately RMB2.6 billion were classified as assets held for sale.

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTIONS (continued)

21.4 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2008 and 2007 are set out below:

	Unaudited	
	Six months ended 30 June	
	2008	2007
Non-executive directors:		
Fees	**963**	932
Other benefits (a)	**106**	305
	1,069	1,237
Executive directors:		
Fees	**—**	—
Other emoluments		
– Salaries and allowances	**5,126**	6,385
– Bonuses paid and payable	**3,593**	4,778
– Other benefits (a)	**920**	2,098
– Contributions to pension schemes	**87**	83
	9,726	13,344
	10,795	14,581

(a) Other benefits represent the share options granted to the directors of the Company under the Company's share option schemes.

(All amounts in RMB thousands unless otherwise stated)

22. CONTINGENCIES AND COMMITMENTS

22.1 Capital commitments

As at 30 June 2008 and 31 December 2007, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited			Audited
	30 June 2008			31 December 2007
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**718,250**	**2,778,512**	**3,496,762**	3,252,464
Authorised but not contracted for	**853,918**	**3,277,904**	**4,131,822**	2,380,180
Total	**1,572,168**	**6,056,416**	**7,628,584**	5,632,644

As at 30 June 2008, approximately RMB119 million (31 December 2007: approximately RMB153 million) of capital commitment outstanding was denominated in US dollars, equivalent to approximately USD17 million (31 December 2007: approximately USD21 million).

The capital commitments are mainly related to continuing operations.

22.2 Operating lease commitments

As at 30 June 2008 and 31 December 2007, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	Unaudited				Audited
	30 June 2008				31 December 2007
	Land and buildings	**Equipment**	**CDMA network capacity (a)**	**Total**	Total
Leases expiring:					
– not later than one year	**962,267**	**144,533**	**3,448,530**	**4,555,330**	8,517,302
– later than one year and not later than five years	**2,340,135**	**178,032**	**—**	**2,518,167**	2,152,843
– later than five years	**1,597,363**	**61,441**	**—**	**1,658,804**	1,740,344
Total	**4,899,765**	**384,006**	**3,448,530**	**8,732,301**	12,410,489

(a) The above CDMA network capacity commitment was estimated based on the Minimum Lease Fee pursuant to 2006 CDMA Lease Agreement. This is related to discontinued operations.

22. CONTINGENCIES AND COMMITMENTS (continued)

22.3 Commitment to purchase CDMA handsets

As at 30 June 2008, the Group committed to purchase CDMA handsets from third party vendors amounting to approximately RMB1,495 million (31 December 2007: approximately RMB2,435 million). This commitment is related to discontinued operations.

23. EVENTS AFTER BALANCE SHEET DATE

23.1 The proposed disposal of the Group's CDMA Business to China Telecom

Further to the announcement on 2 June 2008 in connection with the proposed disposal of the CDMA Business by the Group to China Telecom, on 27 July 2008, the Company, CUCL and China Telecom entered into the Disposal Agreement, which sets out the detailed terms and conditions on which the Company and CUCL will sell, and China Telecom will purchase, the CDMA Business. For details, refer to Note 1.

23.2 Proposed merger between the Company and China Netcom by the Scheme

Further to the joint announcement on 2 June 2008 for the Proposed Merger, on 13 August 2008, the Company further announced:

(i) *Proposed change of accounting policies*

If the proposed merger of the Company and China Netcom ("Enlarged Group") is completed, China Netcom will become a wholly-owned subsidiary of the Company and the financial statements of the China Netcom will be consolidated into the financial statements of the Group. In order to ensure consistency of accounting policies for buildings and fixed line telecommunications equipment adopted by the Enlarged Group and to enhance the comparability with the accounting policies adopted by other fixed line telecommunications operators, the Board of Directors of the Company, on 25 July 2008, has approved the change in the following accounting policies of the Group, which will take effect only on completion of the proposed merger of the Company and China Netcom:

(a) buildings of the Group will be stated at historical costs (less accumulated depreciation and accumulated impairment losses) instead of at revalued amounts; and

(b) telecommunications equipment of long distance, data and internet business of the Group will be stated at revalued amounts instead of historical costs (less accumulated depreciation and accumulated impairment losses).

23. EVENTS AFTER BALANCE SHEET DATE (continued)

23.2 Proposed merger between the Company and China Netcom by the Scheme (continued)

(ii) New connected transactions

Upon completion of the Proposed Merger and the Scheme becoming effective, China Netcom will become a wholly-owned subsidiary of the Company and the parent company of China Netcom will become a connected person of the Company. Accordingly, the existing continuing connected transactions between China Netcom and its subsidiaries (which will become subsidiaries of the Company) and the parent company of China Netcom will become new continuing connected transactions of the Group with effect from the effective date of the Proposed Merger.

In addition, there are existing continuing transactions between certain subsidiaries of the Company and the parent company of China Netcom. Upon completion of the Proposed Merger and the Scheme becoming effective, such existing continuing transactions will become new continuing connected transactions of the Group with effect from the effective date of the Proposed Merger. CUCL and the parent company of China Netcom have entered into certain framework agreements to record the principles governing, and the principal terms of, such existing continuing transactions.

Furthermore, pursuant to an agreement dated 12 August 2008 entered into between Unicom Group and A Share Company and a transfer agreement dated 12 August 2008 entered into between A Share Company, CUCL and China Netcom (Group) Company Limited ("CNC China", a company established in the PRC with limited liability as a wholly foreign owned enterprise and a wholly-owned subsidiary of China Netcom), the terms of the continuing connected transactions between the Group and Unicom Group that were approved on 1 December 2006 by the independent shareholders of the Company (the details of which were set out in the circular issued to the shareholders of the Company dated 10 November 2006), will be amended with effect from the effective date of the Proposed Merger to include CNC China as a party and to facilitate the business and operations of the Enlarged Group.

(iii) Proposed amendment to articles of association

The articles of association currently permit the Board of Directors to deal with fractional Company's shares only in certain circumstances. The Board of Directors has proposed that the articles of association be amended in order to give the Board of Directors greater flexibility to deal with any fractional Company's shares which arise as a result of an issue of the Company's shares by the Company.

(iv) Proposed change of company name

Conditional upon the Scheme becoming effective, the Board of Directors has proposed that the name of the Company be changed from "China Unicom Limited" in English and "中國聯通股份有限公司" in Chinese to "China Unicom (Hong Kong) Limited" in English and "中國聯合網絡通信（香港）股份有限公司" in Chinese, respectively, with effect from the effective date of the Scheme.

The extraordinary general meeting is expected to be held by the Company on 16 September 2008 for the purpose of considering and approving the above proposals.

24. COMPARATIVE FIGURES

As stated in Note 2, 2007 comparative figures have been restated to reflect the effects of Business Combination under common control, which is accounted for using merger accounting in accordance with AG 5. In addition, the results and cash flows of the CDMA business segment have been re-presented as discontinued operations in accordance with HKFRS 5 and therefore, the 2007 comparative figures of the unaudited condensed consolidated interim income statement and cash flow statement were also restated accordingly.

25. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 25 August 2008.

Independent Review Report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF CHINA UNICOM LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 57, which comprises the condensed consolidated interim balance sheet of China Unicom Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated interim income statement, condensed consolidated interim statement of changes in equity and condensed consolidated interim cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
25 August 2008

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. The terms of the Share Option Scheme were amended on 13 May 2002 and 11 May 2007, respectively. Under the amended Share Option Scheme:

(1) share options may be granted to employees including all directors of the Company;

(2) any grant of share options to a connected person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options);

(3) the maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;

(4) the option period commences on any day after the date on which such options are offered, but may not exceed 10 years from the offer date;

(5) the subscription price shall not be less than the higher of:

  (a) the nominal value of the shares;

  (b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on the offer date in respect of the options; and

  (c) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;

(6) the total number of shares in the Company issued and to be issued upon exercise of the options granted to a participant of the Share Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and

(7) the consideration payable for each grant is HKD1.00.

As at 30 June 2008, 210,220,000 share options had been granted and remain valid under the Share Option Scheme, of which 5,170,000 share options are being held by the directors and their associates. All of the options granted and which were outstanding as at 30 June 2008 are governed by the amended terms of the Share Option Scheme as stated herein.

For the six months ended 30 June 2008, 23,862,800 options granted under the Share Option Scheme had been exercised. Among which, 1,218,000 options were exercised at the price of HKD15.42 per share, 1,260,000 options were exercised at the price of HKD6.18 per share, 1,788,800 options were exercised at the price of HKD4.30 per share, 9,404,000 options were exercised at the price of HKD5.92 per share and 10,192,000 options were exercised at the price of HKD6.35 per share.

2. Pre-global Offering Share Option Scheme

On 1 June 2000, the Company adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"). In order to synchronise the administration of the options granted under the Pre-Global Offering Share Option Scheme with the Share Option Scheme, the Pre-Global Offering Share Option Scheme was also amended on 13 May 2002 and 11 May 2007. The amended terms of the Pre-Global Offering Share Option Scheme are substantially the same as the Share Option Scheme as stated above except that:

(1) the price of each share payable upon the exercise of an option shall be HKD15.42 (excluding brokerage fee and Hong Kong Stock Exchange transaction levy);

(2) the period during which an option may be exercised commenced two years from the date of grant of the options and ends 10 years from 22 June 2000; and

(3) no further options can be granted under the scheme.

As at 30 June 2008, 16,977,600 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme, of which 292,600 options are being held by the directors. All of the options granted and which were outstanding as at 30 June 2008 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

For the six months ended 30 June 2008, 4,149,200 options granted under the Pre-Global Share Option Scheme had been exercised.

3. Financial Impact and Valuation of Share Options Granted

The Company recognised share-based employee compensation costs over the vesting period based on the estimated fair value of share options at the grant date by using the Black-Scholes valuation model in which the impact of any non-market vesting conditions is not considered.

4. **Directors', Chief Executive's and Employees' Interest under the Pre-Global Offering Share Option Scheme and the Share Option Scheme**

	Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2008[1]	Movement During the Period			No. of Options Outstanding as at 30 June 2008[1]
					Granted[1]	Exercised[1]	Forfeited[1]	
Directors								
Chang Xiaobing	Beneficial owner (Personal)	21 December 2004	6.20	526,000	—	—	—	526,000
		15 February 2006	6.35	800,000	—	—	—	800,000
								1,326,000
Tong Jilu	Beneficial owner (Personal)	30 June 2001	15.42	292,000	—	—	—	292,000
		20 July 2004	5.92	292,000	—	200,000	—	92,000
		15 February 2006	6.35	500,000	—	—	—	500,000
	Beneficial owner (Spouse)	20 July 2004	5.92	32,000	—	—	—	32,000
		15 February 2006	6.35	40,000	—	—	—	40,000
								956,000
Li Gang	Beneficial owner (Personal)	15 February 2006	6.35	500,000	—	—	—	500,000
Zhang Junan	Beneficial owner (Personal)	15 February 2006	6.35	500,000	—	—	—	500,000
Lu Jianguo	Beneficial owner (Personal)	22 June 2000	15.42	292,600	—	—	—	292,600
		20 July 2004	5.92	292,000	—	—	—	292,000
		15 February 2006	6.35	500,000	—	—	—	500,000
								1,084,600
Lee Suk Hwan	—	—	—	—	—	—	—	—
Wu Jinglian	Beneficial owner (Personal)	21 May 2003	4.30	292,000	—	—	—	292,000
		20 July 2004	5.92	292,000	—	—	—	292,000
								584,000
Shan Weijian	Beneficial owner (Personal)	21 May 2003	4.30	292,000	—	—	—	292,000
		20 July 2004	5.92	292,000	—	—	—	292,000
								584,000
Cheung Wing Lam, Linus	—	—	—	—	—	—	—	—
Wong Wai Ming	—	—	—	—	—	—	—	—

Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2008[1]	Movement During the Period: Granted[1]	Exercised[1]	Forfeited[1]	No. of Options Outstanding as at 30 June 2008[1]
Employees	22 June 2000	15.42	20,834,200	—	4,149,200	—	16,685,000
	30 June 2001	15.42	5,316,000	—	1,218,000	—	4,098,000
	10 July 2002	6.18	3,308,000	—	1,260,000	—	2,048,000
	21 May 2003	4.30	10,508,800	—	1,788,800	18,000	8,702,000
	20 July 2004	5.92	49,724,000	—	9,204,000	62,000	40,458,000
	21 December 2004	6.20	128,000	—	—	—	128,000
	15 February 2006	6.35	161,726,000	—	10,192,000	1,990,000	149,544,000
							221,663,000
Total			**257,279,600**				**227,197,600**

Notes:

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

2. Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Li Zhengmao and Mr. Miao Jianhua resigned as executive director on 23 May 2008. The number of options outstanding as at 1 January 2008 included a total of 3,201,000 options held by Mr. Shang Bing, Mr. Yang Xiaowei and Mr. Li Zhengmao.

3. Particulars of the share options are as follows:

Date of Grant	**Exercise Period**
Options granted under the Pre-Global Offering Share Option Scheme:	
22 June 2000	22 June 2002 to 21 June 2010
Options granted under the Share Option Scheme:	
30 June 2001	30 June 2001 to 22 June 2010
10 July 2002	10 July 2003 to 9 July 2008 (in respect of 40% of the options granted) 10 July 2004 to 9 July 2008 (in respect of 30% of the options granted) 10 July 2005 to 9 July 2008 (in respect of the remaining 30% of the options granted)
21 May 2003	21 May 2004 to 20 May 2009 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2009 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2009 (in respect of the remaining 30% of the options granted)
20 July 2004	20 July 2005 to 19 July 2010 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2010 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2010 (in respect of the remaining 30% of the options granted)
21 December 2004	21 December 2005 to 20 December 2010 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2010 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2010 (in respect of the remaining 30% of the options granted)
15 February 2006	15 February 2008 to 14 February 2012 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2012 (in respect of the remaining 50% of the options granted)

Please also refer to Note 17 to the unaudited condensed consolidated interim financial information set out in this report for additional description, financial impact and valuation of the respective share option schemes.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 30 June 2008, save as disclosed in the paragraph "Share Option Schemes of the Company - 4. Directors', Chief Executive's and Employees' Interest under the Pre-Global Offering Share Option Scheme and the Share Option Scheme" herein above, none of the directors or chief executive of the Company had, or were deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

Please refer to the paragraph "Share Option Schemes of the Company - 4. Directors', Chief Executive's and Employees' Interest under the Pre-Global Offering Share Option Scheme and the Share Option Scheme" herein above for the interests held and rights to acquire shares by the directors and chief executive of the Company under the Pre-Global Offering Share Option Scheme and the Share Option Scheme as at 30 June 2008.

Save as disclosed herein, at no time during the six months ended 30 June 2008, was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Furthermore, save as those disclosed herein, as at 30 June 2008, none of the directors or chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures in the Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

The following table sets out the interests and short positions of every person, other than a director or chief executive of the Company, in the shares or underlying shares of the Company as having been notified to the Company and recorded in the register required to be kept under section 336 of the SFO as at 30 June 2008:

		Ordinary shares held		Percentage of total
		Directly	Indirectly	issued share capital
(i)	China United Telecommunications Corporation ("Unicom Group") [1]	—	9,725,000,020	71.18%
(ii)	China United Telecommunications Corporation Limited ("A Share Company") [1]	—	9,725,000,020	71.18%
(iii)	China Unicom (BVI) Limited ("China Unicom (BVI)") [1]	9,725,000,020	—	71.18%
(iv)	SK Telecom Co., Ltd	899,745,075	—	6.59%

Notes:

1. Because of the fact that Unicom Group and A Share Company directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of China Unicom (BVI), in accordance with the SFO, the interests of China Unicom (BVI) are deemed to be, and have therefore been included in, the interests of Unicom Group and A Share Company.

Save as disclosed above, as at 30 June 2008, no person or corporation had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Please also refer to Note 11 to the unaudited condensed consolidated interim financial information set out in this report for the shareholding position of the Company's shares as at 30 June 2008.

INTERIM DIVIDEND

It was resolved by our Board of Directors that no interim dividend for the six months ended 30 June 2008 be declared.

CHARGE ON ASSETS

As at 30 June 2008, no property, plant and equipment was pledged to banks as loan security (30 June 2007: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares.

BOARD OF DIRECTORS

The directors during the period were:

Executive directors:

Chang Xiaobing *(Chairman)*	
Tong Jilu	
Li Gang	
Zhang Junan	
Shang Bing	(resigned on 23 May 2008)
Yang Xiaowei	(resigned on 23 May 2008)
Li Zhengmao	(resigned on 23 May 2008)
Miao Jianhua	(resigned on 23 May 2008)

Non-executive director:

Lu Jianguo
Lee Suk Hwan

Independent non-executive directors:

Wu Jinglian
Shan Weijian
Cheung Wing Lam, Linus
Wong Wai Ming

AUDIT COMMITTEE

The major responsibilities of the Audit Committee include: considering and approving the appointment, resignation and removal of external auditors and their fees; supervising the external auditors and determining the potential impact of non-audit services on auditors' independence; reviewing the quarterly, interim and annual financial statements; coordinating and discussing with external auditors any problems and comments raised by them during the statutory audits; reviewing any correspondence from the external auditors to the management and responses of the management; and reviewing the relevant reports concerning the internal control procedures of the Company. The Committee meets at least four times each year. The Committee assists the Board in its review of the financial statements and ensures effective internal controls and efficient auditing.

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2008.

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Wu Jinglian, Mr. Shan Weijian and Mr. Cheung Wing Lam, Linus, all being the independent non-executive directors of the Company. The Chairman of the Committee is Mr. Wong Wai Ming.

REMUNERATION COMMITTEE

The major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies proposed by the management, the remuneration scheme of the directors and the senior management as well as the share option schemes. The Remuneration Committee conducts performance appraisals for the Chief Executive Officer and determines his year-end bonus pursuant to the performance target contract entered into between the Company and the Chief Executive Officer. The Chief Executive Officer is responsible for the performance appraisal and the determination of the performance-based year-end bonuses for the other members of the Company's management. The results are subject to the review of the Committee. The Committee meets at least once a year.

The Remuneration Committee comprises Mr. Wu Jinglian and Mr. Cheung Wing Lam, Linus, both of whom are the independent non-executive directors of the Company, and Mr. Lu Jianguo, who is a non-executive director of the Company. The Chairman of the Committee is Mr. Wu Jinglian.

CORPORATE GOVERNANCE

1. Compliance with Code of Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Code of Corporate Governance Practices (the "Code Provision") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2008 except the followings:

(a) Under Code Provision A.2.1, the roles and responsibilities of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board of Directors understands that the principle of the Code Provision is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. Mr. Chang Xiaobing has been the Chairman and Chief Executive Officer of the Company since December 2004. Mr. Shang Bing was the Company's President from November 2004 to May 2008 (Mr. Shang Bing has resigned as the President of the Company on 23 May 2008). Mr. Chang Xiaobing chairs the Board and is responsible for all material affairs, including development, business strategy, operation and management of the Company. The President of the Company is responsible for the daily operation and management of the Company. The Board believes that at the present stage, this arrangement achieves the aforesaid principle of separation of responsibilities. It also facilitates the formulation and implementation of the Company's strategies in a more effective manner so as to support the effective development of the Company's business. As the Company is proposing to merge with China Netcom Group Corporation (Hong Kong) Limited ("Netcom") (for details, please refer to the paragraph headed "Recent Significant Developments" below), upon completion of the merger, Mr. Chang Xiaobing will become the Chairman and Chief Executive Officer of the enlarged group. The management of the enlarged group is expected to be mainly drawn from the existing management teams of the Company and Netcom, and the management teams of the Company and Netcom will be integrated and utilized to an optimal capacity in order to realize the synergies of the combined businesses of the enlarged group.

(b) Under Code Provision A.4.1, non-executive directors shall be appointed for a specific term, subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation at the general meeting pursuant to the Company's articles of association and are subject to re-election by shareholders pursuant to the relevant requirements.

2. Model Code for Securities Transactions by Directors' of the Company

The Company has prepared the Procedures for Dealing of Securities by Directors in accordance with Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries and all directors confirmed that they had complied with the relevant code for securities transactions for the six months ended 30 June 2008.

3. Requirements under Section 404 of the Sarbanes-Oxley Act of 2002 (the "SOX Act")

The Company has strongly emphasized on the compliance with the requirements under Section 404 of the Sox Act ("Section 404"). Under Section 404, the management is responsible for establishing and maintaining adequate internal controls over financial reporting. As of 31 December 2007, the management conducted an assessment on the effectiveness of the Company's internal controls over financial reporting and concluded that the Company's internal controls over financial reporting as of 31 December 2007 was effective. The independent auditor of the Company also expressed an unqualified opinion on the effectiveness of internal controls over financial reporting of the Company as of 31 December 2007 in their audit report. The management's assessment and the independent auditors' audit report are included in the Company's annual report on Form 20-F for the year ended 31 December 2007, as filed with the United States Securities Exchange Commission on 20 June 2008.

4. **Summary of Significant Differences between the Corporate Governance Practices of the Company and the Corporate Governance Practices Required to be Followed by US Companies under the New York Stock Exchange's Listing Standards**

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Hong Kong Companies Ordinance, as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. The Company is also subject to the listing standards of the New York Stock Exchange to the extent they apply to non-U.S. issuers. However, as a non-U.S. issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its internet website www.chinaunicom.com.hk a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the New York Stock Exchange's listing standards.

5. **Appendix 16 of the Listing Rules**

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2007 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2008, the Group employed approximately 130 and 57,000 staff in Hong Kong and Mainland China, respectively. Also, the Group employed approximately 60,000 temporary staff in Mainland China. For the six months ended 30 June 2008, the employee benefit expenses for the Group were RMB3.83 billion (for the six months ended 30 June 2007: RMB3.52 billion), in which employee benefit expenses for continuing operations were RMB2.79 billion (for the six months ended 30 June 2007: RMB2.60 billion). The Group endeavors to maintain its employees' remuneration in line with market trend and maintain its competitiveness. Employees' remuneration is determined in accordance with its remuneration and bonus system based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits, internal and external training programmes, varying based on their individual needs.

The Company has adopted share option schemes, under which the Company may grant share options to eligible staff for subscribing to the Company's shares.

RECENT SIGNIFICANT DEVELOPMENTS

This report contains the interim financial information of the Group for the six months ended 30 June 2008. Since 30 June 2008, there have been significant developments in the business and operations of the Company which are expected to have a material impact on the business, financial and trading prospects of the Group in the future. These recent development events are summarized herein and set out below.

1. Proposed Merger with Netcom

On 2 June 2008, the boards of directors of the Company and Netcom jointly announced that the Company had formally presented to the board of directors of Netcom, and requested the board of directors of Netcom to put forward to the shareholders of Netcom for consideration, the proposals relating to the merger of the Company and Netcom by way of a scheme of arrangement of Netcom under Section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "Scheme"). Upon the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of the Company and the listings of Netcom's shares and ADSs on the Hong Kong Stock Exchange and the New York Stock Exchange, will be withdrawn, respectively.

The proposals constitute a very substantial acquisition for the Company under the Listing Rules and are therefore subject to the approval of the Company's shareholders at an extraordinary general meeting to be held on 16 September 2008 in accordance with the details set out in a notice of extraordinary general meeting of the Company dated 15 August 2008. The details of the very substantial acquisition are set out in a circular of the Company dated 15 August 2008 (the "VSA Circular"), which also includes, in Appendix IV to the VSA Circular, the full text of the document in respect of the Scheme (the "Scheme Document"). You may download and view the VSA Circular from the Company's website at www.chinaunicom.com.hk or the Hong Kong Stock Exchange's website at www.hkexnews.hk.

If the Scheme is approved, all other conditions of the Scheme as specified in the Scheme Document have been satisfied or waived, as applicable, and the proposals become effective, the Company intends to continue with the existing business of Netcom and has no intention to introduce any major changes to the business of Netcom or to redeploy any fixed assets of Netcom and its subsidiaries (the "Netcom Group"). After the completion of the proposed merger, the enlarged group is expected to be an integrated telecommunications operator offering wireless, fixed-line, broadband, data and value added services to its subscribers, and is expected to be granted a 3G license. The Company intends to take measures to combine the experience and technologies of the Group and the Netcom Group in the wireless and fixed-line businesses, respectively, to promote business innovation and competitiveness and to improve operating and financial performance through developing targeted business strategies according to the dynamic market developments. By combining the resources and business strengths of the Company and Netcom in different areas, and upon obtaining a license for mature 3G technology, it is intended that after the completion of the proposed merger, the enlarged group will aim to become a world-class provider of broadband communications and information services, establishing competitive advantages in technology, products and services, providing professional and multi-tiered information services and satisfying the changing and diverse needs of China's telecommunications market.

2. Change of Company's name

Conditional upon the Scheme becoming effective, the directors propose that the name of the Company be changed from "China Unicom Limited" in English and "中國聯通股份有限公司" in Chinese to "China Unicom (Hong Kong) Limited" in English and "中國聯合網絡通信（香港）股份有限公司" in Chinese, respectively, with effect from the effective date of the Scheme. The stock trading name currently used by the Company will remain unchanged. Please see the VSA Circular for further details of the proposed change of the Company's name.

3. Special Purpose Share Option Scheme

In connection with the proposed merger, it is also proposed that the Company adopts the Special Purpose Share Option Scheme. Pursuant to the proposal to Netcom's optionholders made in connection with the proposed merger, the Company will grant Netcom's optionholders new options to be issued by the Company pursuant to the Special Purpose Share Option Scheme in consideration for the cancellation of their Netcom options outstanding (whether vested or not) at the record time for determining their entitlements under the option proposal referred to above. The Special Purpose Share Option Scheme will provide the Company with a means to incentivize and retain Netcom's optionholders, who are middle to senior management staff of the Netcom Group, and to encourage them to diligently achieve an enhancement in the value of the Company.

A summary of the principal terms of the Special Purpose Share Option Scheme (including the exercise price of the options and the number of options to be granted under the Special Purpose Share Option Scheme) is set out in Appendix II to the VSA Circular.

4. CDMA Business Disposal

On 2 June 2008, the Company, China Unicom Corporation Limited ("CUCL", a wholly-owned subsidiary of the Company), and China Telecom Corporation Limited ("China Telecom") entered into a CDMA business disposal framework agreement which sets out the terms and conditions on which the Company, CUCL and China Telecom will proceed with the CDMA business disposal whereby CUCL will sell, and China Telecom will purchase, the CDMA business of CUCL. On 27 July 2008, these parties further entered into a CDMA business disposal agreement which sets out the detailed terms and conditions on which CUCL and the Company will sell, and China Telecom will purchase, the CDMA business. The consideration for the CDMA business disposal is RMB43.8 billion (approximately HK$50.0 billion) and is payable in cash by China Telecom in three installments. The consideration is subject to a price adjustment mechanism, which is based on the CDMA service revenue generated by the Group for the six months ended 30 June 2007 and 30 June 2008, as set out in a circular issued by the Company dated 1 August 2008 (the "CDMA Disposal Circular"). Based on the CDMA service revenue generated by the Group for the six months ended 30 June 2007 and 30 June 2008, and as agreed by the Company and China Telecom, there will be no adjustment to the consideration as a result of the price adjustment mechanism.

In connection with the CDMA business disposal, on 27 July 2008, CUCL agreed to waive its right to exercise its option to purchase the CDMA network from Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon") and to terminate the CDMA lease pursuant to which CUCL leases capacity on the CDMA network from Unicom New Horizon, in each case with effect from the completion of the CDMA business disposal. The CDMA business disposal constitutes a major transaction for the Company and is subject to the approval of the Company's shareholders at the extraordinary general meeting of the Company to be held on 16 September 2008 in accordance with the details set out in a notice of extraordinary general meeting of the Company dated 1 August 2008. Each of the waiver by CUCL of the option to purchase the CDMA network and the termination of the CDMA lease constitutes a connected transaction for the Company and is subject to the approval of the independent shareholders of the Company.

The CDMA business disposal is subject to various conditions, including, among other things, (a) the approval of the Company's shareholders and the shareholders of China United Telecommunications Corporation Limited ("Unicom A Share Company") for the CDMA business disposal, (b) the approval of the independent shareholders of the Company and the non-affiliated shareholders of Unicom A Share Company for the waiver by CUCL of the option to purchase the CDMA network and the termination of the CDMA lease, (c) the approval of the independent shareholders of China Telecom for the leasing of capacity on the CDMA network by China Telecommunications Corporation to China Telecom and (d) the receipt of any other necessary regulatory or corporate approvals for the completion of the CDMA business disposal.

The directors believe that the terms of the CDMA business disposal are fair and reasonable and in the interests of the Company's shareholders as a whole. In recent years, the Company's GSM business has become the most significant contributor to its financial and operational performance. In the interest of reducing the complexity facing its operations and management and deploying resources to enhance focus on the development of its GSM business and relevant brands so as to maximise the shareholder value and return on investment, the directors therefore propose to dispose of the Company's CDMA business. The disposal will enable the Company to better focus its financial and operational resources on the enhancement of its GSM business and the future development of 3G services.

For detailed information about the CDMA business disposal, please see the announcement issued by the Company on 28 July 2008 and the CDMA Disposal Circular. You may download and view these documents from the Company's website at www.chinaunicom.com.hk or the Hong Kong Stock Exchange's website at www.hkexnews.hk.

FORWARD-LOOKING STATEMENTS

The Company would like to caution investors and readers about the forward-looking nature of some of the statements contained in this report. Such forward-looking statements may include, without limitation, the Company's operating strategy and future plan; its restructuring plan; its capital expenditure plan; its future business condition and financial results; its abilities to upgrade and expand networks and increase network efficiency; its ability to improve existing services and offer new services; its ability to develop new technology applications; its ability to leverage its position as an integrated telecommunications operator and expand into new businesses and new markets; future growth of market demand for the Company's services; and future regulatory and other developments in the PRC telecommunications industry.

Such forward-looking statements reflect the current views of the Company with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors that may be beyond the Company's control, including, without limitation, any changes in the regulatory regime and significant policies for the PRC telecommunications industry, including changes in the structure or functions of the primary industry regulator, the Ministry of Industry and Information Technology, or the MII (which has assumed the regulatory functions of the former Ministry of Information Industry), or any changes in the regulatory policies of the MII, the State-owned Assets Supervision and Administration Commission and other relevant government authorities of the PRC; any decisions by the PRC government in relation to the technology standards and licenses of third generation mobile telecommunication; the results of the ongoing restructuring of the PRC telecommunications industry; any changes in the effects of competition on the demand and price of the Company's telecommunications services; the effect of the Company's restructuring and the integration of the Company and China Netcom Group Corporation (Hong Kong) Limited following the completion of the proposed merger; any changes in telecommunications and related technologies and applications based on such technologies; and any changes in political, economic, legal and social conditions in the PRC, including the PRC government's policies with respect to economic growth, consolidations or restructuring of and other structural changes in the PRC telecommunications industry, foreign exchange, foreign investment and entry by foreign companies into the PRC telecommunications market.

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 25 August 2008