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**CHINA UNICOM (HONG KONG) LIMITED**

**中國聯合網絡通信（香港）股份有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 0762)**

**ANNOUNCEMENT**

The Board of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2010.

**GROUP RESULTS**

China Unicom (Hong Kong) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2010.

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2010**  
(All amounts in Renminbi (“RMB”) millions)

	<u>30 September</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	355,106	351,157
Lease prepayments	7,470	7,729
Goodwill	2,771	2,771
Deferred income tax assets	5,432	5,202
Available-for-sale financial assets	6,893	7,977
Other assets	<u>11,541</u>	<u>11,596</u>
	<u>389,213</u>	<u>386,432</u>
<b>Current assets</b>		
Inventories and consumables	2,016	2,412
Accounts receivable, net	9,412	8,825
Prepayments and other current assets	5,687	4,252
Amounts due from related parties	47	53
Amounts due from domestic carriers	1,264	1,134
Proceeds receivable for disposal of the CDMA business	—	5,121
Short-term bank deposits	758	996
Cash and cash equivalents	<u>10,591</u>	<u>7,820</u>
	<u>29,775</u>	<u>30,613</u>
<b>Total assets</b>	<u><u>418,988</u></u>	<u><u>417,045</u></u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	2,310	2,310
Share premium	173,436	173,435
Reserves	(18,766)	(18,088)
Retained profits		
- Proposed 2009 final dividend	—	3,770
- Others	<u>48,178</u>	<u>45,038</u>
	<u>205,158</u>	<u>206,465</u>
<b>Non-controlling interest in equity</b>	<u>2</u>	<u>2</u>
<b>Total equity</b>	<u><u>205,160</u></u>	<u><u>206,467</u></u>

	<b>30 September</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Long-term bank loans	1,493	759
Corporate bonds	7,000	7,000
Promissory note	15,000	—
Deferred income tax liabilities	19	245
Deferred revenue	2,354	2,562
Other obligations	<u>183</u>	<u>187</u>
	<u>26,049</u>	<u>10,753</u>
<b>Current liabilities</b>		
Accounts payables and accrued liabilities	98,088	104,072
Taxes payable	1,258	912
Amounts due to ultimate holding company	256	308
Amounts due to related parties	4,492	5,438
Amounts due to domestic carriers	928	1,136
Payables in relation to disposal of the CDMA business	—	7
Dividend payable	1,430	331
Commercial paper	23,000	—
Short-term bank loans	28,885	63,909
Current portion of long-term bank loans	57	62
Current portion of deferred revenue	1,100	1,397
Current portion of other obligations	2,532	2,534
Advances from customers	<u>25,753</u>	<u>19,719</u>
	<u>187,779</u>	<u>199,825</u>
<b>Total liabilities</b>	<u>213,828</u>	<u>210,578</u>
<b>Total equity and liabilities</b>	<u>418,988</u>	<u>417,045</u>
<b>Net current liabilities</b>	<u>(158,004)</u>	<u>(169,212)</u>
<b>Total assets less current liabilities</b>	<u>231,209</u>	<u>217,220</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**  
**(All amounts in RMB millions, except per share data)**

		<b>Nine months ended</b>	
		<b>30 September</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
Revenue		125,109	114,928
Interconnection charges		(10,151)	(9,520)
Depreciation and amortisation		(40,543)	(35,173)
Networks, operations and support expenses		(19,342)	(17,155)
Employee benefit expenses		(17,195)	(16,020)
Other operating expenses		(32,887)	(25,617)
Finance costs		(1,307)	(589)
Interest income		62	65
Other income - net		504	368
Unrealised gain on changes in fair value of derivative financial instrument	3	<u>—</u>	<u>962</u>
<b>Profit before income tax</b>		4,250	12,249
Income tax expenses		<u>(982)</u>	<u>(2,911)</u>
<b>Profit for the period</b>		<u><u>3,268</u></u>	<u><u>9,338</u></u>
<b>Attributable to:</b>			
Equity holders of the Company		3,268	9,338
Non-controlling interest		<u>—</u>	<u>—</u>
		<u><u>3,268</u></u>	<u><u>9,338</u></u>
<b>Basic earnings per share (in RMB)</b>	4	<u><u>0.14</u></u>	<u><u>0.39</u></u>
<b>Diluted earnings per share (in RMB)</b>	4	<u><u>0.14</u></u>	<u><u>0.39</u></u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
 COMPREHENSIVE INCOME  
 FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010  
 (All amounts in RMB millions)**

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<u>2010</u>	<u>2009</u>
<b>Profit for the period</b>	<u>3,268</u>	<u>9,338</u>
<b>Other comprehensive (loss)/ income</b>		
Fair value (losses)/gains on available-for-sale financial assets	(1,098)	72
Tax effect on fair value losses/(gains) on available-for-sale financial assets	<u>268</u>	<u>(5)</u>
Fair value (losses)/gains on available-for-sale financial assets, net of tax	(830)	67
Currency translation differences	<u>(32)</u>	<u>4</u>
<b>Other comprehensive (loss)/ income for the period, net of tax</b>	<u>(862)</u>	<u>71</u>
<b>Total comprehensive income for the period</b>	<u>2,406</u>	<u>9,409</u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	2,406	9,409
Non-controlling interest	<u>—</u>	<u>—</u>
	<u>2,406</u>	<u>9,409</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010  
(All amounts in RMB millions)**

		<b>Nine months ended 30 September</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
<b>Net cash inflow from operating activities</b>		58,653	46,475
<b>Net cash outflow from investing activities</b>	(a)	(56,924)	(60,810)
<b>Net cash inflow from financing activities</b>		1,042	15,281
<b>Net increase in cash and cash equivalents</b>		2,771	946
Cash and cash equivalents, beginning of period		7,820	10,237
Cash and cash equivalents, end of period		10,591	11,183
<b>Analysis of the balances of cash and cash equivalents:</b>			
Cash balances		7	8
Bank balances		10,584	11,175
		10,591	11,183

- (a) The net cash outflow from investing activities for the nine months ended 30 September 2010 included the proceeds of approximately RMB5,121 million received in relation to disposal of the CDMA business in 2008, whereas the net cash outflow from investing activities for the nine months ended 30 September 2009 included the income tax paid on the gain on disposal of the CDMA business in 2008 and related professional service fees paid totaling RMB9,329 million, offset by proceeds received of approximately RMB4,290 million from the disposal of the CDMA business.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**1. GENERAL INFORMATION**

China Unicom (Hong Kong) Limited (the “Company”) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on 8 February 2000. The principal activities of the Company are investment holding and the Company’s subsidiaries are principally engaged in the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The Company and its subsidiaries are hereinafter referred to as the “Group”.

**2. BASIS OF PREPARATION**

The basis of preparation and the significant accounting policies and estimates adopted in the preparation of the unaudited condensed consolidated financial information for the nine months ended 30 September 2010 are consistent with those used in preparing the annual financial statements for the year ended 31 December 2009.

**Going Concern Assumption**

As at 30 September 2010, current liabilities of the Group exceeded current assets by approximately RMB158.0 billion (31 December 2009: approximately RMB169.2 billion). Given the current global economic conditions and the Group’s expected capital expenditures in the foreseeable future, management has comprehensively considered the Group’s available sources of funds as follows:

- The Group’s continuous net cash inflow from operating activities;
- Revolving banking facilities of approximately RMB105.0 billion, of which approximately RMB86.5 billion was unutilised as at 30 September 2010; and
- Other available sources of financing from domestic banks and other financial institutions given the Group’s credit history.

In addition, the Group will continue to optimise its fund raising strategy from the short, medium and long-term perspectives and will consider the opportunities in the current capital market to take advantage of low interest rates by issuing medium to long-term debts with low financing cost.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated financial information of the Group for the nine months ended 30 September 2010 has been prepared under the going concern basis.

### **3. MUTUAL INVESTMENT OF USD1 BILLION BY THE COMPANY AND TELEFÓNICA S.A. IN EACH OTHER**

On 6 September 2009, the Company entered into a subscription agreement (“Subscription Agreement”) with Telefónica S.A. (“Telefónica”), pursuant to which each party conditionally agreed to invest an equivalent of USD1 billion in each other through an acquisition of each other’s shares. On 21 October 2009 (“Completion Date”), the Company and Telefónica completed the mutual investment of the equivalent of USD1 billion in each other, which was implemented by way of the subscription by Telefónica for 693,912,264 new shares of the Company at a price of HKD11.17 each, satisfied by the contribution by Telefónica of 40,730,735 Telefónica treasury shares at a price of EUR17.24 each to the Company.

At the inception of the Subscription Agreement on 6 September 2009, the Company’s agreement to undertake the mutual investment with Telefónica was treated as a derivative financial instrument in accordance with IAS/HKAS 39 “Financial instruments: Recognition and Measurement” as it represented a forward contract for the purchase of shares by the Company and Telefónica in each other at predetermined fixed prices and different foreign currencies. The changes in the fair value of the derivative financial instrument during the period from 6 September 2009 to 30 September 2009 resulted in a fair value gain of approximately RMB962 million, which has been recorded as “Unrealised gain on changes in fair value of derivative financial instrument” in the unaudited condensed consolidated statement of income for the nine months ended 30 September 2009.

Upon settlement of the derivative financial instrument on completion of the mutual investment by the Company and Telefónica in each other at the Completion Date, 21 October 2009, the derivative financial instrument was derecognised and an available-for-sale financial asset, representing the investment in the Telefónica shares, was recognised at the then fair value of the Telefónica shares. As at 30 September 2010 and 31 December 2009, the related available-for-sale financial asset amounted to approximately RMB6,759 million and RMB7,789 million, respectively. For the nine months ended 30 September 2010, loss on changes in fair value of available-for-sale financial asset amounted to approximately RMB1,030 million. The loss, net of tax impact of approximately RMB258 million, was recorded in the unaudited condensed consolidated statement of comprehensive income.

### **4. EARNINGS PER SHARE**

Basic earnings per share for the nine months ended 30 September 2010 and 2009 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 nine months ended 30 September 2010 and 2009 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. All potential ordinary shares for the nine months ended 30 September 2010 arose from (i) share options granted under the amended Share Option Scheme; and (ii) share options granted under the amended Special Purpose Share Option Scheme, while all potential ordinary shares for the nine months ended 30 September 2009 arose from (i) share options granted under the amended Pre-Global Offering Share Option Scheme, (ii) share options granted under the amended Share Option Scheme; (iii) share options granted under the amended Special Purpose Share Option Scheme, and (iv) shares to be issued to Telefónica under the Subscription Agreement.

The potential ordinary shares which are not dilutive for the nine months ended 30 September 2010 arose from share options with exercise price of HKD15.42 granted under the amended Share Option Scheme, while the potential ordinary shares which are not dilutive for the nine months ended 30 September 2009 arose from (i) share options with exercise price of HKD15.42 granted under the amended Pre-Global Offering Share Option Scheme and amended Share Option Scheme, and (ii) shares to be issued to Telefónica under the Subscription Agreement, which were excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

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

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	<b>2009</b>
Numerator (in RMB millions):		
Profit attributable to equity holders of the Company	<u>3,268</u>	<u>9,338</u>
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,562	23,768
Dilutive equivalent shares arising from share options	<u>134</u>	<u>120</u>
Shares used in computing diluted earnings per share	<u>23,696</u>	<u>23,888</u>
Basic earnings per share (in RMB)	<u>0.14</u>	<u>0.39</u>
Diluted earnings per share (in RMB)	<u>0.14</u>	<u>0.39</u>

## 5. EVENTS AFTER BALANCE SHEET DATE

### **Issue of USD1,838,800,000 0.75% guaranteed convertible bonds due 2015**

On 28 September 2010, the Company (as guarantor) entered into a subscription agreement (the “Subscription Agreement”), pursuant to which 0.75 per cent guaranteed convertible bonds due 2015 (the “Convertible Bonds”) will be issued by bond issuer exchangeable into ordinary shares of the Company for an aggregate principal amount of USD1,838,800,000. Upon fulfillment of all conditions precedent under the Subscription Agreement, the issue of the Convertible Bonds was completed on 18 October 2010. For details, please refer to the section headed “ISSUE OF CONVERTIBLE BONDS” in this announcement.

## FINANCIAL OUTLINE

For the first three quarters of 2010, the Company demonstrated a steady growth in its overall revenue by further accelerating its business development, and enhancing its network services and network support capability continuously, achieving a sustainable faster growth in mobile business and a rapid growth in broadband business and better controlling the decline in fixed-line business.

### *Revenue*

For the first three quarters of 2010, total revenue reached RMB125.11 billion, of which, telecommunications service revenue was RMB120.65 billion. Excluding the effects of deferred fixed-line upfront connection fees, total revenue and telecommunications service revenue would increase by 9.1% and 7.7%, respectively, as compared to the same period of last year.

Revenue from mobile business (Note 1) was RMB63.59 billion, up by 20.0% from the same period of last year, of which, telecommunications service revenue from mobile business was RMB60.52 billion, up by 16.8% from the same period of last year. Monthly average minutes of usage (“MOU”) per subscriber was 276.0 minutes, and monthly average revenue per user (“ARPU”) was RMB43.5. Of which, telecommunications service revenue from 3G business was RMB7.34 billion, MOU per subscriber was 641.6 minutes and ARPU was RMB129.8.

Revenue from the fixed-line business (Note 1) was RMB60.14 billion, of which, telecommunications service revenue from the fixed-line business was RMB59.42 billion. Excluding the effects of deferred fixed-line upfront connection fees, revenue and telecommunications services revenue from the fixed-line business would decrease by 1.9% and 1.0%, respectively, from the same period of last year. Telecommunications service revenue from broadband business was RMB22.09 billion, up by 22.3% from the same period of last year. ARPU of broadband business was RMB57.8.

### *Costs and Expenses and Others*

For the first three quarters of 2010, total costs and expenses and others, including finance costs, interest income, the unrealised gain on the changes in fair value of derivative financial instrument, and other income-net, were RMB120.86 billion, up by 17.7% from the same period of last year. With the further expansion of network capacity and rapid development of core businesses such as 3G and broadband businesses, depreciation and amortization, networks, operations and support expenses, selling expenses and 3G handset subsidies increased faster. Depreciation and amortisation was RMB40.54 billion, increased by RMB5.37 billion or 15.3% from the same period of last year. Networks, operations and support expenses were RMB19.34 billion, increased by RMB2.19 billion or 12.7% from the same period of last year. Selling expenses were RMB17.11 billion, increased by RMB2.23 billion or 15.0% from the same period of last year. Handset subsidies relating to 3G business amounted to RMB2.99 billion, of which, the subsidies for the third quarter was RMB1.82 billion, has been recorded in the consolidated statement of income for the first three quarters of 2010.

## *Earnings*

For the first three quarters of 2010, profit before income tax was RMB4.25 billion and profit for the period was RMB3.27 billion. Basic earnings per share was RMB0.139. Adjusted profit for the period (Note 2) would be RMB3.10 billion, down by 62.3% as compared to the same period of last year. Adjusted EBITDA (Note 3) would be RMB45.37 billion, down by 1.8% as compared to the same period of last year. Adjusted EBITDA margin (adjusted EBITDA as a percentage of the total revenue) would be 36.3%.

## *Additional Information*

Although revenue from the 3G business and fixed-line broadband business of the Company have been growing fast, the Company's earnings for 2010 may be substantially different from the earnings for 2009 due to the fast-increasing of depreciation and amortisation, networks, operations and support expenses, as well as selling expenses, particularly the 3G handset subsidies.

This announcement is also made pursuant to Rule 13.09 of the Listing Rules.

**Note 1:** Revenue from mobile business and the fixed-line business represents revenues from external customers, excluding intersegment revenue.

**Note 2:** Adjusted profit for the period represents profit for the period excluding the effects of deferred fixed-line upfront connection fees of RMB0.17 billion and RMB0.4 billion for the first three quarters of 2010 and 2009, respectively, and the unrealised gain on the changes in fair value of derivative financial instrument of RMB0.96 billion for the first three quarters of 2009.

**Note 3:** Adjusted EBITDA represents profit for the period (excluding the effects of deferred fixed-line upfront connection fees of RMB0.17 billion and RMB0.4 billion for the first three quarters of 2010 and 2009, respectively, and the unrealised gain on the changes in fair value of derivative financial instrument of RMB0.96 billion for the first three quarters of 2009) before interest income, finance costs, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditures and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analyzing the operating results of a telecommunications service operator like our Group.

Although EBITDA has been widely applied in the global telecommunications industry as an indicator to reflect operating performance, financial capability and liquidity, it should be considered in addition to, and is not 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. In addition, it may not be comparable to similar indicators provided by other companies.

## ISSUE OF CONVERTIBLE BONDS

On 28 September 2010, the Company (as guarantor) entered into a subscription agreement (the “Subscription Agreement”) with Billion Express Investments Limited, a subsidiary of the Company (the “Bond Issuer”), and with China International Capital Corporation Hong Kong Securities Limited, Goldman Sachs (Asia) L.L.C. and Nomura International (Hong Kong) Limited (the “Joint Lead Managers”). Pursuant to the Subscription Agreement, the Joint Lead Managers have agreed to subscribe and pay for or to procure subscribers to subscribe and pay for 0.75 per cent guaranteed convertible bonds due 2015 issued by the Bond Issuer exchangeable into ordinary shares of the Company for an aggregate principal amount of USD1,838,800,000 (the “Convertible Bonds”).

The transactions under the Subscription Agreement and the issue of the Convertible Bonds will provide strong capital support for the development of the Company’s key business, such as 3G and broadband business, enhance the Company’s market presence and competitiveness, and strengthen the Company’s capital basis effectively after full conversion of the Convertible Bonds.

Completion of the issue of the Convertible Bonds took place on 18 October 2010 and the Convertible Bonds in registered form in the aggregate principal amount of USD1,838,800,000 have been created and issued in favour of the purchasers of the Convertible Bonds in accordance with the terms of the Subscription Agreement. Approval has been granted by The Stock Exchange of Hong Kong Limited for the listing of and permission to deal in the Convertible Bonds with effect from 19 October 2010.

## CAUTION STATEMENT

The Board wishes to remind investors that the unaudited financial information and the financial outline for the nine months ended 30 September 2010 are based on the Group’s internal records and management accounts and have not been reviewed or audited by the auditors. The financial information for the nine months ended 30 September 2009 are extracted from the unaudited financial information of the Group and the financial information for the year ended 31 December 2009 are extracted from the audited financial statements as contained in the 2009 Annual Report.

Investors are cautioned not to unduly rely on financial data, statistics and comparison for the nine months ended 30 September 2010. **In the meantime, investors are advised to exercise caution in dealing in the shares of the Company.**

*As at the date of this announcement, the board of directors of the Company comprises:*

Executive directors: Chang Xiaobing, Lu Yimin, Zuo Xunsheng and Tong Jilu

Non-executive director: Cesareo Alierta Izuel

Independent  
non-executive directors: Cheung Wing Lam Linus, Wong Wai Ming,  
John Lawson Thornton, Timpson Chung Shui Ming and  
Cai Hongbin

By Order of the Board of  
**China Unicom (Hong Kong) Limited**  
**Chu Ka Yee**  
*Company Secretary*

Hong Kong, 29 October 2010