Interim Report 2012

China unicom 中国联通

CHINA UNICOM (HONG KONG) LIMITED
Incorporated in Hong Kong with limited liability

Stock Code: 0762

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Chairman's Statement

Dear Shareholders,

In the first half of 2012, the Company continued to lead the industry in terms of revenue growth, with a continued improvement in its business structure and enhanced profitability and overall strength.

Chang Xiaobing
Chairman & CEO

Chairman's Statement

Financial performance[1]

In the first half year, revenue of the Company totaled RMB121.69 billion, an increase of 20.0% over the same period last year (excluding deferred fixed-line upfront connection fee for the same period last year, same hereinafter unless otherwise specified). Service revenue was RMB102.39 billion, an increase of 13.3% over the same period last year.

While revenue grew rapidly, the Company saw a continued improvement in its profitability and operating cash flows. EBITDA reached RMB36.04 billion, an increase of 12.5% over the same period last year. Net profit was RMB3.43 billion, an increase of 31.9% over the same period last year. Basic earnings per share was RMB0.146. Operating cash flows was RMB35.54 billion, an increase of 3.3% over the same period last year. Capital expenditure was RMB38.94 billion.

As at 30 June 2012, the net debt-to-capitalisation ratio of the Company was 29.6%. The Company's debt-to-capitalisation structure remained solid.

Business performance[1]

Facing a complex macroeconomic situation and an increasingly intense market competition, the Company continued to grasp the good opportunities of industry development and accelerate the scale development of its key businesses. The Company's revenue continued to grow rapidly, with its growth rate maintaining at an industry-leading level. The period-on-period growth rate of service revenue exceeded the industry average by 4.1 percentage points. The market share of revenue continued to increase. The revenue structure continued to improve. Revenue from the mobile business and the non-voice business accounted for 59.1% and 52.3% of its total service revenue respectively.

Chairman's Statement

The mobile business achieved scale and rapid development amidst transformation and upgrade

In the first half year, service revenue from the mobile business of the Company was RMB60.48 billion, an increase of 23.4% over the same period last year. The number of mobile subscribers of the Company reached 219.249 million, an increase of 20.7% over the same period last year. The ARPU of mobile subscribers was RMB48.1, an increase of 2.8% over the same period last year. Revenue from the non-voice business and 3G business accounted for 40.6% and 44.5% of the service revenue from the mobile business respectively. The mobile business achieved scale and rapid development amidst the transformation and upgrade of the industry.

The Company focused on developing the business scale of its 3G business. In the first half year, the net additions of 3G subscribers were 17.511 million and the total number of 3G subscribers reached 57.530 million. The ARPU of subscribers and average monthly data flow of mobile phone subscribers were RMB91.8 and 138.3MB respectively, continuing to maintain at an industry leading level. Service revenue from the 3G business was RMB26.90 billion, which doubled the amount of the same period last year, and economy of scale has been gradually emerged.

While 3G subscribers grew rapidly, the penetration rate of contract subscribers also increased rapidly. Following the successful launch of the first thousand-RMB smartphones which drove the rapid growth of the number of subscribers, the Company further improved its 3G strategic handset system and enhanced the price-performance ratio and penetration rate of smartphones. This strengthened the Company's ability to enhance its contract sales and create favourable condition for achieving economy-of-scale of its 3G business. As at 30 June 2012, the contract subscribers accounted for 47.7% of total 3G subscribers, an increase of 12.3 percentage points from the end of last year, further optimizing its 3G subscribers mix.

With improving sales and marketing policies, the Company sought further breakthrough in its channel sales capability. By focusing on core outlets, the Company inspired sales vigour through measures such as optimizing the sales process, enhancing incentives and promoting experiential marketing. In the first half year, sales from social channels accounted for 60% of the Company's 3G business. Sales per store of the listed stores increased by 37% over the same period last year. Eyeing on the future, the Company actively built an e-commerce platform and launched products that are only available for online sales, in order to expand the impact of its e-channel. Revenue from online sales stores in the first half year exceeded RMB15.0 billion.

The Company actively implemented data volume operation to enrich content-based resources such as online application store, mobile music and mobile reading to increase the attractiveness of the contents. By adopting measures such as promoting the 3G ancillary marketing system in stores and hot contents delivery, the Company actively helped its subscribers acquire habits of using data services and in turn to facilitate increases in data volume.

As for the GSM business, due to the impacts of increasing competition and the substitution by data services, the Company's GSM business faced with greater pressures in the first half year. Service revenue was RMB33.58 billion, a decrease of 6.3% over the same period last year. The decrease in revenue was mainly attributed to the decline in the traditional GSM businesses including voice and SMS. Revenue from businesses such as GSM mobile Internet and information navigation increased rapidly over the same period last year, with revenue from the mobile Internet business increased by 16.2% over the same period last year.

The growth of the fixed-line broadband business drove the fixed-line business to remain stable

In the first half year, driven by the revenue growth from the fixed-line broadband business, the Company's service revenue from the fixed-line business was RMB41.50 billion, an increase of 1.5% over the same period last year. Revenue from the non-voice business accounted for 69.0%. The business structure continued to improve.

By capitalizing on the favourable opportunity presented by the implementation of the Broadband China strategy, the Company actively promoted the broadband popularization and speed enhancement project and further carried out marketing on speed enhancement. The net additions of fixed-line broadband subscribers were 4.876 million and the total number of subscribers reached 60.527 million. Service revenue from the fixed-line broadband business was RMB19.40 billion, an increase of 13.0% over the same period last year, and accounted for 46.7% of the service revenue from the fixed-line business. The fixed-line broadband business became the top revenue contributor of the fixed-line business. The local telephone business[2] continued to decline. The service revenue in the first half year was RMB15.07 billion, a decrease of 14.7% over the same period last year. The decline gradually slowed down.

The Company actively promoted the "WO Family" bundled services with fixed-line broadband as its core and endeavoured to provide family subscribers with unified information services to increase the value of the fixed-line business.

Industry applications drove the rapid growth of the Company's corporate clients business

The Company focused on key industry applications such as mobile OA, government enforcement, automobile information services, monitoring and surveillance and stock trading machine and leveraged on its increasing influence in key industry sectors to actively drive strategic project cooperation with key clients and promote integrated information communications solutions for small and medium-sized enterprises. In the first half year, the number of subscribers from key industry applications exceeded 16.00 million. The Company's revenue from corporate clients increased rapidly.

Network building

To fully fulfill the needs of the market development and capture such strategic development opportunity, the Company accelerated the construction of the WCDMA target network in the first half year, extended the 3G network coverage in terms of breadth and improved the coverage in urban areas in terms of depth. The number of 3G base stations increased by 43,000. HSPA+ coverage was extended to 77 cities. The Company also expedited the building of fixed-line broadband optical fiber access network, strengthened and increased its competitive advantage in broadband networks. In the first half year, the number of fixed-line broadband access ports increased by 29.3% over the same period last year and the percentage of access ports with bandwidth over 20M was 44%.

Chairman's Statement

Outlook

In the second half year, the Company will adhere to its development strategy established at the beginning of the year to accelerate scale development of key businesses, strive for continued increase in its operating efficiency and profitability and achieve greater breakthroughs in its scale of development and efficiency level. Major operating measures include:

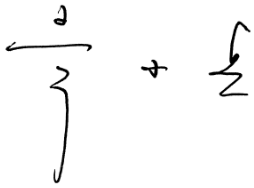
Firstly, the Company will firmly grasp the strategic development opportunity to facilitate the continued rapid growth. The Company will strive for the overall enhancement of its sales, network and service capabilities and the rapid growth of key businesses such as 3G and fixed-line broadband to continuously increase its market share.

Secondly, the Company will optimize its development model and accelerate the pace of its transformation and upgrade. The Company expects to expedite the integration of 2G and 3G services, actively promote data flow volume operation and deepen the integration of fixed-line and mobile businesses to reinforce the Company's competitive advantage of differentiation and enhance its competitive strength.

Thirdly, the Company will continue to accelerate the construction of the target network to ensure the needs of market development. The Company will continue to speed up the construction of 3G target network and further expand the coverage of HSPA+ to maintain its leading advantage in WCDMA network. The Company will also accelerate the construction of the optical access networks to ensure high-speed broadband access in city areas. The Company plans to significantly enhance 3G and broadband network user experience in the second half year.

Fourthly, the Company will continue to strengthen its management capabilities and profitability. The Company plans to further refine its management of various resources such as network and sales and marketing, implement cost reduction to increase efficiency, actively promote the innovation of system mechanisms, and strengthen its basic management to achieve continued increase in results performance.

Lastly, on behalf of the Board of the Company, I would like to express my sincere gratitude to the shareholders, the government and the community for their support to the development of the Company, and also to the management and all staff members of the Company for their unremitting efforts in the development of the Company.



Chang Xiaobing
Chairman and Chief Executive Officer
Hong Kong, 23 August 2012

Note 1: Except for basic earnings per share, all revenues and profit figures herein exclude the effects of deferred fixed-line upfront connection fee of RMB15 million for the first half of 2011.

Note 2: Local telephone business includes local voice service, long-distance service, fixed-line value-added service and interconnection services.

Financial Overview[1]

Revenue

In the first half of 2012, total revenue was RMB121.69 billion, representing an increase of 20.0% as compared to the same period of last year. Of the total revenue, service revenue was RMB102.39 billion, representing an increase of 13.3% as compared to the same period of last year.

Revenue from the mobile business was RMB79.75 billion in the first half of 2012, of which, service revenue from the mobile business was RMB60.48 billion, up by 23.4% as compared to the same period of last year. Value-added service revenue from the mobile business was RMB24.26 billion and as a percentage of service revenue from the mobile business, there was an increase from 35.3% in the first half of 2011 to 40.1% in the first half of 2012. Service revenue from the GSM business was RMB33.58 billion, down by 6.3% as compared to the same period of last year. Service revenue from 3G business was RMB26.90 billion and as a percentage of service revenue from the mobile business, there was an increase from 26.9% in the first half of 2011 to 44.5% in the first half of 2012.

Revenue from the fixed-line business was RMB41.53 billion in the first half of 2012, of which, service revenue from the fixed-lined business was RMB41.50 billion, up by 1.5% as compared to the same period of last year. Non-voice revenue from the fixed-line business was RMB28.64 billion and as a percentage of service revenue from the fixed-line business, there was an increase from 62.5% in the first half of 2011 to 69.0% in the first half of 2012. Out of non-voice revenue from the fixed-line business, service revenue from broadband business was RMB19.40 billion, up by 13.0% as compared to the same period of last year. As a percentage of service revenue from the fixed-line business, service revenue from broadband business increased from 42.0% in the first half of 2011 to 46.7% in the first half of 2012. Service revenue from the local telephone business was RMB15.07 billion, down by 14.7% as compared to the same period of last year.

Costs and Expenses

In the first half of 2012, total costs and expenses[2] were RMB117.12 billion, up by 19.6% as compared to the same period of last year.

The Company's network assets increased mainly due to the continuous expansion of its mobile network coverage as well as the implementation of "Broadband China" strategy in order to improve network quality and capacity. As a result, the Company incurred depreciation and amortisation charge of RMB30.17 billion in the first half of 2012, representing an increase of RMB1.75 billion or 6.2% as compared to the same period of last year. As a result of the expansion of network coverage and increase of network assets, as well as the increase in utilities charge and rental expenses, networks, operations and support expenses in the first half of 2012 amounted to RMB15.64 billion, representing an increase of RMB1.61 billion or 11.5% as compared to the same period of last year.

The Company proactively responded to the keen market competition by optimising and adjusting its marketing strategies, promoting the integration of handsets, channels and applications as well as strengthening customer maintenance and further accelerating the development of key businesses. As a result, selling and marketing expenses were RMB16.38 billion in the first half of 2012, representing an increase of RMB2.78 billion or 20.4% as compared to the same period of last year.

The Company continued to optimise 3G plan policies and leverage its advantages in handsets offerings in order to step up the development of 3G subscribers. Costs of telecommunications products sold were RMB22.96 billion in the first half of 2012, up by 60.6% as compared to the same period of last year. Revenue from sales of telecommunications products in the first half of 2012 was RMB19.30 billion, up by 74.9% as compared to the same period of last year. Loss on the sales of telecommunications products was RMB3.66 billion which included 3G handset subsidy cost of RMB3.52 billion.

Financial Overview

The interconnection usage increased as the number of the Company's subscribers grew. The interconnection charge was RMB9.15 billion in the first half of 2012, up by RMB1.39 billion, or 17.9% as compared to the same period of last year.

As the average social wages, as well as the base of social insurance and housing fund continued to increase in China, the employee benefit expenses were RMB13.74 billion in the first half of 2012, up by RMB1.22 billion, or 9.7% as compared to the same period of last year.

Earnings

In the first half of 2012, profit before income tax was RMB4.57 billion and profit for the period was RMB3.43 billion, up by 31.9% as compared to the same period of last year. Basic earnings per share was RMB0.146. EBITDA[3] was RMB36.04 billion, up by 12.5% as compared to the same period of last year. EBITDA as a percentage of the service revenue was 35.2%.

Operating Cash Flow and Capital Expenditure

In the first half of 2012, the Company's net cash flow from operating activities was RMB35.54 billion, up by 3.3% as compared to the same period of last year. Capital expenditure totaled RMB38.94 billion. Free cash flow (representing net cash flow from operating activities less capital expenditure) was RMB -3.40 billion.

Balance Sheet

Liabilities-to-assets ratio changed from 54.9% as at 31 December 2011 to 56.3% as at 30 June 2012. Debt-to-capitalisation ratio changed from 34.2% as at 31 December 2011 to 35.4% as at 30 June 2012.

Note 1: Except for basic earnings per share, all revenue and profit figures herein exclude deferred fixed-line upfront connection fees of RMB15 million for the first half of 2011.

Note 2: Including interconnection charges, depreciation and amortisation, networks, operations and support expenses, employee benefit expenses, costs of telecommunications products sold, other operating expenses, finance costs, interest income and other income-net.

Note 3: EBITDA represents profit for the period before finance costs, interest income, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure 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 analysing the operating results of a telecommunications service operator like our Group.

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2012
(All amounts in Renmibi ("RMB") millions)

	Note	**30 June 2012**	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	5	**390,117**	381,859
Lease prepayments		**7,589**	7,657
Goodwill		**2,771**	2,771
Deferred income tax assets	6	**6,914**	5,091
Financial assets at fair value through other comprehensive income	7	**5,356**	6,951
Other assets	8	**13,054**	13,101
		425,801	417,430
Current assets			
Inventories and consumables	9	**5,780**	4,651
Accounts receivable	10	**13,627**	11,412
Prepayments and other current assets	11	**5,977**	6,127
Amounts due from related parties	31.1	**18**	22
Amounts due from domestic carriers	31.2	**933**	1,181
Short-term bank deposits		**121**	304
Cash and cash equivalents		**18,625**	15,106
		45,081	38,803
Total assets		**470,882**	456,233
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**2,311**	2,311
Share premium	12	**173,472**	173,472
Reserves		**(21,308)**	(20,016)
Retained profits			
– Proposed 2011 final dividend	29	**—**	2,356
– Others		**51,205**	47,775
Total equity		**205,680**	205,898

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2012
(All amounts in RMB millions)

	Note	**30 June 2012**	31 December 2011
LIABILITIES			
Non-current liabilities			
Long-term bank loans	13	**1,358**	1,384
Promissory notes	14	**12,000**	15,000
Convertible bonds	15	**11,222**	11,118
Corporate bonds	16	**7,000**	7,000
Deferred income tax liabilities	6	**15**	17
Deferred revenue		**1,705**	1,801
Other obligations		**226**	88
		33,526	36,408
Current liabilities			
Accounts payable and accrued liabilities	17	**102,898**	95,252
Taxes payable		**2,002**	1,232
Amounts due to ultimate holding company	31.1	**342**	342
Amounts due to related parties	31.1	**5,045**	5,707
Amounts due to domestic carriers	31.2	**1,434**	1,344
Commercial papers	18	**38,000**	38,000
Short-term bank loans	19	**37,788**	32,322
Current portion of long-term bank loans	13	**49**	50
Current portion of promissory notes	14	**3,000**	—
Dividend payable	29	**583**	488
Current portion of deferred revenue		**788**	882
Current portion of other obligations		**2,648**	2,586
Advances from customers		**37,099**	35,722
		231,676	213,927
Total liabilities		**265,202**	250,335
Total equity and liabilities		**470,882**	456,233
Net current liabilities		**(186,595)**	(175,124)
Total assets less current liabilities		**239,206**	242,306

The notes on pages 15 to 43 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Income

For the six months ended 30 June 2012
(All amounts in RMB millions, except per share data)

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 As restated (Note 2 (a) and (b))
Revenue	20	**121,690**	101,418
Interconnection charges		**(9,151)**	(7,763)
Depreciation and amortisation		**(30,172)**	(28,420)
Networks, operations and support expenses	21	**(15,642)**	(14,035)
Employee benefit expenses	22	**(13,740)**	(12,523)
Costs of telecommunications products sold	23	**(22,955)**	(14,293)
Other operating expenses	24	**(24,163)**	(20,760)
Finance costs	25	**(2,047)**	(893)
Interest income		**121**	121
Other income - net	26	**624**	601
Profit before income tax		**4,565**	3,453
Income tax expenses	6	**(1,135)**	(836)
Profit for the period		**3,430**	2,617
Profit attributable to:			
Owners of the parent		**3,430**	2,617
Earnings per share for profit attributable to owners of the parent during the period:			
Basic earnings per share (RMB)	30	**0.15**	0.11
Diluted earnings per share (RMB)	30	**0.14**	0.11

The notes on pages 15 to 43 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2012
(All amounts in RMB millions)

	Six months ended 30 June	
	2012	2011 As restated (Note 2 (a) and (b))
Profit for the period	**3,430**	2,617
Other comprehensive (loss)/income		
Changes in fair value of financial assets through other comprehensive income	**(1,741)**	409
Tax effect on changes in fair value of financial assets through other comprehensive income	**435**	(102)
Changes in fair value of financial assets through other comprehensive income, net of tax	**(1,306)**	307
Currency translation differences	**—**	(6)
Other comprehensive (loss)/income for the period, net of tax	**(1,306)**	301
Total comprehensive income for the period	**2,124**	2,918
Total comprehensive income attributable to:		
Owners of the parent	**2,124**	2,918

The notes on pages 15 to 43 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 2012
(All amounts in RMB millions)

	Attributable to owners of the parent									
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2011	2,310	173,436	79	623	(1,334)	24,830	572	(42,970)	48,115	205,661
Total comprehensive income/(loss) for the period (As restated) (Note 2(a) and (b))	—	—	—	—	307	—	—	(6)	2,617	2,918
Transfer to statutory reserves	—	—	—	—	—	15	—	—	(15)	—
Equity-settled share option schemes:										
– Value of employee services	—	—	—	17	—	—	—	—	—	17
– Issuance of shares upon exercise of options	1	34	—	(1)	—	—	—	—	—	34
– Transfer between reserves upon lapsing of options	—	—	—	(1)	—	—	—	—	1	—
Dividends relating to 2010 (Note 29)	—	—	—	—	—	—	—	—	(1,885)	(1,885)
Balance at 30 June 2011 (As restated)	2,311	173,470	79	638	(1,027)	24,845	572	(42,976)	48,833	206,745
Balance at 1 January 2012	**2,311**	**173,472**	**79**	**637**	**(3,307)**	**25,111**	**572**	**(43,108)**	**50,131**	**205,898**
Total comprehensive (loss)/income for the period	**—**	**—**	**—**	**—**	**(1,306)**	**—**	**—**	**—**	**3,430**	**2,124**
Equity-settled share option schemes:										
– Value of employee services	**—**	**—**	**—**	**14**	**—**	**—**	**—**	**—**	**—**	**14**
Dividends relating to 2011 (Note 29)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,356)**	**(2,356)**
Balance at 30 June 2012	**2,311**	**173,472**	**79**	**651**	**(4,613)**	**25,111**	**572**	**(43,108)**	**51,205**	**205,680**

The notes on pages 15 to 43 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2012
(All amounts in RMB millions)

	Six months ended 30 June	
	2012	2011 As restated (Note 2 (a) and (b))
Net cash inflow from operating activities	**35,535**	34,385
Net cash outflow from investing activities	**(35,090)**	(36,524)
Net cash inflow/(outflow) from financing activities	**3,074**	(2,281)
Net increase/(decrease) in cash and cash equivalents	**3,519**	(4,420)
Cash and cash equivalents, beginning of period	**15,106**	22,597
Cash and cash equivalents, end of period	**18,625**	18,177
Analysis of the balances of cash and cash equivalents:		
Cash balances	**6**	7
Bank balances	**18,619**	18,170
	18,625	18,177

The notes on pages 15 to 43 are an integral part of this unaudited condensed consolidated interim financial information.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activities of the Company are investment holding. The principal activities of the Company's subsidiaries are 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 GSM cellular voice, WCDMA cellular voice and related value-added services are referred to as the "mobile business", the services aforementioned other than the mobile business are hereinafter collectively referred to as the "fixed-line business". The Company and its subsidiaries are hereinafter referred to as the "Group".

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited on 22 June 2000 and the American Depositary Shares of the Company were listed on the New York Stock Exchange on 21 June 2000.

The substantial shareholders of the Company are China Unicom (BVI) Limited ("Unicom BVI") and China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI", formerly known as China Netcom Group Corporation (BVI) Limited). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited ("A Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"). Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. As a result, the directors of the Company consider Unicom Group to be the ultimate holding company.

Acquisition of China Unicom NewSpace Limited (hereinafter referred to as the "2011 Business Combination")

On 1 December 2011, China Unicom Broadband Online Limited Corporation ("Broadband Online", a wholly-owned subsidiary of China United Network Communications Corporation Limited ("CUCL", a wholly-owned subsidiary of the Company)) entered into an equity interest transfer agreement with Unicom Group, pursuant to which Broadband Online agreed to acquire the entire equity interest of China Unicom NewSpace Limited ("Unicom NewSpace") from Unicom Group for a total cash consideration of approximately RMB158 million. The acquisition was completed on 1 December 2011.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim financial reporting" issued by the International Accounting Standards Board ("IASB"). IAS 34 is consistent with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 and 2011 have not been audited by the auditors, and the financial information for the year ended 31 December 2011 is extracted from the audited financial statements as set out in the Company's 2011 Annual Report.

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 2011. The Group's policies on financial risk management, including management of market risk, credit risk and liquidity risk, as well as capital risk management, were set out in the financial statements included in the Company's 2011 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2012.

The 2011 comparative figures in the unaudited condensed consolidated interim financial information have been restated as a result of the following:

(a) Business Combination of Entity and Business under Common Control

The 2011 Business Combination was considered a business combination of entity and business under common control as Unicom NewSpace was under the control of Unicom Group, the Group's ultimate holding company before and after the acquisition.

Under Hong Kong Financial Reporting Standards ("HKFRSs"), the 2011 Business Combination was accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA. Upon the adoption of International Financial Reporting Standards ("IFRSs") by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRSs. Accordingly, the acquired assets and liabilities are stated at predecessor values, and were included in the unaudited condensed consolidated interim financial information from the beginning of the earliest period presented as if the entities and businesses acquired had always been part of the Group considering the acquired entity had always been under common control during all the periods presented.

(All amounts in RMB millions unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(b) Adoption of amended IFRS/HKFRS 1

Pursuant to the amended IFRS/HKFRS 1 "First-time Adoption of International/Hong Kong Financial Reporting Standards" issued in 2010, a first-time-adopt entity may have established a deemed cost in accordance with previous generally accepted accounting principles for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering ("IPO"). If the measurement date is at or before the date of transition to IFRSs/HKFRSs, the entity may use such event-driven fair value measurements as deemed cost for IFRSs/HKFRSs at the date of that measurement. If the measurement date is after the date of transition to IFRSs/HKFRSs, but during the period covered by the first IFRSs/HKFRSs financial statement of the entity, the event-driven fair value measurements may be used as deemed cost when the event occurs. The amendment permits the entity to apply event-driven fair value measurements as deemed cost retrospectively in the first annual period after 1 January 2011.

The Group had completed its IPO process and merger of businesses under common control before the adoption of IFRSs and the property, plant and equipment were revalued for the purpose of the transactions. Such revaluations were event-driven fair value measurements. Accordingly, upon the adoption of amended IFRS/HKFRS 1 in 2011, the Group applied such event-driven fair value measurements as deemed cost for the relevant property, plant and equipment (other than buildings and telecommunications equipment of mobile business which were accounted for using the cost model), retrospectively. The restated deemed costs of these assets would be subject to depreciation and impairment assessments.

Upon the adoption of amended IFRS/HKFRS 1, the event-driven fair value measurement has been treated as deemed cost, so subsequent re-measurement at fair value of property, plant and equipment is not necessary to comply with IAS/HKAS 16 "Property, Plant and Equipment". Accordingly, the Group changed its accounting policy and measures all of its property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. As a result, those revaluation surpluses or deficits recognised as a consequence of the 2006 and 2008 revaluations have been reversed and their impacts on depreciation have been adjusted accordingly.

Summary of the restatement to 2011 comparative financial information

The following table summarises the changes to the 2011 comparative financial information in connection with the 2011 Business Combination and the adoption of amended IFRS/HKFRS 1:

	As previously reported	2011 Business Combination	Adoption of amended IFRS/HKFRS 1	Eliminations	As restated
For the six months ended 30 June 2011					
Results of operations:					
Revenue	101,400	18	—	—	101,418
Profit for the period	2,652	9	(44)	—	2,617

2. BASIS OF PREPARATION (CONTINUED)

(c) Going Concern Assumption

As at 30 June 2012, current liabilities of the Group exceeded current assets by approximately RMB186.6 billion (31 December 2011: approximately RMB175.1 billion). Given the current global economic conditions and the Group's expected capital expenditure in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB194.2 billion of revolving banking facilities and registered quota of commercial papers, of which approximately RMB137.4 billion was unutilised as at 30 June 2012; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group believes it has the ability to raise funds from the short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio.

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 interim financial information of the Group for the six months ended 30 June 2012 have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied 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 2011.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012 and are applicable for the Group:

IFRS/HKFRS 7 (amendments), "Financial instruments: disclosures"

IAS/HKAS 12 (amendments), "Income taxes"

The adoption of the above amendments to standards did not have any significant impact on the Group's unaudited condensed consolidated interim financial information.

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are effective for the financial year beginning after 1 January 2012 and have not been early adopted by the Group. Management is assessing the impact of such new standards, amendments to standards and interpretations and will adopt the relevant standards, amendments to standards and interpretations in the subsequent periods as required.

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the Chief Operating Decision Maker (the "CODM"). Operating segments are identified on the basis of internal reports that the CODM reviews regularly in allocating resources to segments and in assessing their performances.

Prior to 1 January 2012, the mobile business and the fixed-line business were identified as the major operating segments of the Group and the CODM evaluated the results of operating segments based on revenue and costs that were directly attributable to them.

Following the change of internal cost management by functions instead of by business lines and the in-depth development of integrated telecommunications business, the CODM started to allocate resources and assess the Group's business performance as a whole instead of by business lines or geographical regions since 1 January 2012. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group primarily operates in Mainland China and accordingly, no geographic information is presented. No single external customer accounted for 10 percent or more of the Group's revenue in all periods presented.

5. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2012 and 2011 are as follows:

	Six months ended 30 June 2012					
	Buildings	**Tele-communications equipment**	**Office furniture, fixtures, motor vehicles and others**	**Leasehold improvements**	**Construction-in-progress ("CIP")**	**Total**
Cost:						
Beginning of period	**56,782**	**688,626**	**44,014**	**2,754**	**54,682**	**846,858**
Additions	**27**	**120**	**47**	**11**	**37,326**	**37,531**
Transfer from CIP	**1,020**	**23,174**	**170**	**252**	**(24,616)**	**—**
Disposals	**(45)**	**(3,537)**	**(134)**	**(217)**	**—**	**(3,933)**
End of period	**57,784**	**708,383**	**44,097**	**2,800**	**67,392**	**880,456**
Accumulated depreciation and impairment:						
Beginning of period	**(18,818)**	**(412,435)**	**(32,316)**	**(1,414)**	**(16)**	**(464,999)**
Charge for the period	**(1,192)**	**(25,502)**	**(2,033)**	**(258)**	**—**	**(28,985)**
Disposals	**43**	**3,256**	**128**	**217**	**—**	**3,644**
Impairment transfer out	**—**	**1**	**—**	**—**	**—**	**1**
End of period	**(19,967)**	**(434,680)**	**(34,221)**	**(1,455)**	**(16)**	**(490,339)**
Net book value:						
End of period	**37,817**	**273,703**	**9,876**	**1,345**	**67,376**	**390,117**
Beginning of period	**37,964**	**276,191**	**11,698**	**1,340**	**54,666**	**381,859**

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Six months ended 30 June 2011 (As restated)					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	53,797	633,718	42,900	2,321	59,245	791,981
Additions	125	578	52	13	23,767	24,535
Transfer from CIP	884	22,924	1,643	303	(25,754)	—
Disposals	(17)	(3,105)	(295)	(72)	—	(3,489)
End of period	54,789	654,115	44,300	2,565	57,258	813,027
Accumulated depreciation and impairment:						
Beginning of period	(16,674)	(379,777)	(28,800)	(1,060)	(16)	(426,327)
Charge for the period	(1,092)	(24,084)	(1,947)	(254)	—	(27,377)
Disposals	16	3,005	281	72	—	3,374
Impairment transfer out	—	1	—	—	—	1
End of period	(17,750)	(400,855)	(30,466)	(1,242)	(16)	(450,329)
Net book value:						
End of period	37,039	253,260	13,834	1,323	57,242	362,698
Beginning of period	37,123	253,941	14,100	1,261	59,229	365,654

For the six months ended 30 June 2012, the Group recognised a gain on disposal of property, plant and equipment of approximately RMB58 million (for the six months ended 30 June 2011: gain of approximately RMB15 million).

(All amounts in RMB millions unless otherwise stated)

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2011: 16.5%) on the estimated assessable profits for the six months ended 30 June 2012. Taxation on profits from outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2012 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in Mainland China and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2011: 25%).

	Six months ended 30 June	
	2012	2011 (As restated)
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	**10**	8
– Outside Hong Kong	**2,515**	1,733
	2,525	1,741
Deferred taxation	**(1,390)**	(905)
Income tax expenses	**1,135**	836

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

	Six months ended 30 June	
	2012	2011 (As restated)
Applicable PRC statutory tax rate	**25.0%**	25.0%
Non-deductible expenses	**1.5%**	2.2%
Non-taxable income		
– Upfront installation fees	**—**	(0.6%)
Impact of PRC preferential tax rates and tax holiday	**(0.6%)**	(1.2%)
Others	**(1.0%)**	(1.2%)
Effective tax rate	**24.9%**	24.2%

(All amounts in RMB millions unless otherwise stated)

6. TAXATION (CONTINUED)

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

	Six months ended 30 June	
	2012	2011 (As restated)
Net deferred tax assets after offsetting:		
Beginning of period	**5,091**	4,940
Deferred tax credited to the statement of income	**1,388**	902
Deferred tax credited/(charged) to other comprehensive income	**435**	(102)
End of period	**6,914**	5,740
Net deferred tax liabilities after offsetting:		
Beginning of period	**(17)**	(22)
Deferred tax credited to the statement of income	**2**	3
End of period	**(15)**	(19)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2012	31 December 2011
Equity securities issued by corporates	**5,356**	6,951
Analysed by place of listing:		
Listed in the PRC	**115**	114
Listed outside the PRC	**5,241**	6,837
	5,356	6,951

For the six months ended 30 June 2012, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB1,741 million (for the six months ended 30 June 2011: increase of approximately RMB409 million). The decrease, net of tax impact, of approximately RMB1,306 million (for the six months ended 30 June 2011: increase, net of tax impact, of approximately RMB307 million) was recorded in the unaudited condensed consolidated interim statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

8. OTHER ASSETS

	30 June 2012	31 December 2011
Direct incremental costs for activating mobile services	**327**	390
Installation costs	**907**	1,022
Prepaid rental for premises and leased lines	**3,909**	3,919
Purchased software	**5,795**	5,506
Others	**2,116**	2,264
	13,054	13,101

9. INVENTORIES AND CONSUMABLES

	30 June 2012	31 December 2011
Handsets and other customer end products	**4,164**	3,387
Telephone cards	**324**	296
Consumables	**1,196**	887
Others	**96**	81
	5,780	4,651

10. ACCOUNTS RECEIVABLE

	30 June 2012	31 December 2011
Accounts receivable	**18,736**	14,922
Less: Provision for doubtful debts	**(5,109)**	(3,510)
	13,627	11,412

(All amounts in RMB millions unless otherwise stated)

10. ACCOUNTS RECEIVABLE (CONTINUED)

The aging analysis of accounts receivable is as follows:

	30 June 2012	31 December 2011
Within one month	**9,889**	8,556
More than one month to three months	**1,259**	1,009
More than three months to one year	**4,377**	3,189
More than one year	**3,211**	2,168
	18,736	14,922

The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year.

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

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June 2012	31 December 2011
Prepaid rental	**1,538**	1,590
Deposits and prepayments	**3,046**	2,624
Prepaid income taxes	**—**	696
Advances to employees	**383**	285
Others	**1,010**	932
	5,977	6,127

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

	30 June 2012	31 December 2011
Within one year	**5,315**	5,604
More than one year	**662**	523
	5,977	6,127

12. SHARE CAPITAL

	30 June 2012 HKD millions	31 December 2011 HKD millions
Authorised:		
30,000,000,000 ordinary shares of par value HKD0.10 each	**3,000**	3,000

Issued and fully paid:	Number of shares millions	Ordinary shares, par value of HKD0.10 each HKD millions	Share capital	Share premium	Total
At 1 January 2011	23,562	2,355	2,310	173,436	175,746
Issuance of shares upon exercise of options (Note 28)	3	1	1	34	35
At 30 June 2011	23,565	2,356	2,311	173,470	175,781
At 1 January 2012 and 30 June 2012	**23,565**	**2,356**	**2,311**	**173,472**	**175,783**

13. LONG-TERM BANK LOANS

	Interest rates and final maturity	30 June 2012	31 December 2011
RMB denominated bank loans	Floating interest rate, 15% downward on the benchmark interest rate issued by the People's Bank of China for three years bank borrowings on quarterly basis with maturity through 2013	**800**	800
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00 % (31 December 2011: Nil to 5.00%) per annum with maturity through 2039 (31 December 2011: maturity through 2039)	**400**	411
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2011: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2011: maturity through 2034)	**207**	223
Sub-total		**1,407**	1,434
Less: Current portion		**(49)**	(50)
		1,358	1,384

(All amounts in RMB millions unless otherwise stated)

13. LONG-TERM BANK LOANS (CONTINUED)

As at 30 June 2012, long-term bank loans of approximately RMB111 million (31 December 2011: approximately RMB116 million) were guaranteed by third parties.

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

	30 June 2012	31 December 2011
Balances due:		
– not later than one year	**49**	50
– later than one year and not later than two years	**847**	848
– later than two years and not later than five years	**140**	150
– later than five years	**371**	386
	1,407	1,434
Less: Portion classified as current liabilities	**(49)**	(50)
	1,358	1,384

14. PROMISSORY NOTES

On 2 April 2010, CUCL issued tranche one of a promissory note in the amount of RMB3 billion, with a maturity date of 3 years from the date of issue and carries interests at 3.73% per annum.

On 20 September 2010, CUCL issued tranche two of a promissory note in the amount of RMB12 billion, with a maturity date of 3 years from the date of issue and carries interests at 3.31% per annum.

(All amounts in RMB millions unless otherwise stated)

15. CONVERTIBLE BONDS

On 18 October 2010, Billion Express Investments Limited ("Billion Express"), a wholly-owned subsidiary of the Company, issued 0.75% guaranteed convertible bonds in an aggregate principal amount of USD1,838,800,000 (at the fixed exchange rate of USD1 equivalent to HKD7.7576) which are due in October 2015 at a redemption price of 100% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of par value HKD0.10 per share of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to certain anti-dilution and change in control adjustments set out in the Trust deed dated 18 October 2010. An adjustment has been made to the conversion price from HKD15.85 to HKD15.58 as a result of the dividends paid by the Company since the convertible bonds were issued. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date not later than seven days prior to the date fixed for redemption thereof. Billion Express will, at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013 at their principal amount together with interest accrued and unpaid to the date fixed for redemption. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

During the six months ended 30 June 2012 and 2011, there was no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds made by Billion Express.

The fair value of the liability component, which was calculated using market interest rate for a bond with the same tenure but with no conversion features, was determined upon the issuance of the convertible bonds. The difference between the face value (net of direct issue costs) and the fair value of the liability component was credited to the convertible bonds reserve under equity attributable to owners of the parent.

The convertible bonds recognised in the unaudited condensed consolidated interim balance sheet are calculated as follows:

	Six months ended 30 June	
	2012	2011
Movement of liability component:		
Beginning of period	**11,118**	11,558
Less: interest paid	**(43)**	(45)
Add/(less): effect of exchange loss/(gain) on liability component	**42**	(264)
Add: imputed finance cost	**105**	107
End of period	**11,222**	11,356

The liability component of the convertible bonds at 30 June 2012 amounted to approximately RMB11,222 million (equivalent to USD1,774 million) and was calculated using cash flows discounted at a rate based on the borrowing rate of 1.90% per annum taking into the effect of direct issue costs.

(All amounts in RMB millions unless otherwise stated)

16. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.50% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

On 3 September 2008, the Group issued another RMB5 billion 5-year corporate bonds, bearing interests at 5.29% per annum. The corporate bonds are secured by a corporate guarantee granted by State Grid Corporation of China.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2012	31 December 2011
Payables to contractors and equipment suppliers	**75,388**	72,068
Payables to telecommunications products suppliers	**4,836**	5,203
Customer/contractor deposits	**3,885**	3,517
Repair and maintenance expense payables	**2,710**	2,325
Salary and welfare payables	**2,882**	1,344
Interest payables	**1,705**	832
Amounts due to service providers/content providers	**1,384**	1,175
Accrued expenses	**7,993**	6,381
Others	**2,115**	2,407
	102,898	95,252

The aging analysis of accounts payable and accrued liabilities is as follows:

	30 June 2012	31 December 2011
Less than six months	**92,003**	85,699
Six months to one year	**6,984**	5,483
More than one year	**3,911**	4,070
	102,898	95,252

(All amounts in RMB millions unless otherwise stated)

18. COMMERCIAL PAPERS

On 25 August 2011, CUCL issued tranche one of 2011 commercial papers in an amount of RMB15 billion, with a maturity date of 366 days from the date of issue and carries interests at 5.23% per annum.

On 20 October 2011, CUCL issued tranche two of 2011 commercial papers in an amount of RMB8 billion, with a maturity date of 366 days from the date of issue and carries interests at 5.78% per annum.

On 21 November 2011, CUCL issued tranche five of 2011 super and short-term commercial papers in an amount of RMB15 billion, with a maturity date of 180 days from the date of issue and carries interests at 4.65% per annum. The super and short-term commercial papers were fully repaid in May 2012.

On 16 May 2012, CUCL issued tranche one of 2012 super and short-term commercial papers in an amount of RMB15 billion, with a maturity date of 60 days from the date of issue and carries interests at 3.88% per annum. The super and short-term commercial papers were fully repaid in July 2012.

19. SHORT-TERM BANK LOANS

	Interest rates and final maturity	**30 June 2012**	31 December 2011
RMB denominated bank loans	Fixed interest rates ranging from 3.87% to 6.10% (31 December 2011: 1.09% to 4.12%) per annum with maturity through 2013 (31 December 2011: maturity through 2012)	**20,180**	1,000
RMB denominated bank loans	Floating interests rates, 0% downward on the benchmark interest rate issued by the People's Bank of China with maturity through 2012	**—**	16,810
HKD denominated bank loans	Floating interest rates of HKD HIBOR plus interest margin from 1.00% to 2.15% (31 December 2011: 0.63% to 2.15%) per annum with maturity through 2013 (31 December 2011: maturity through 2012)	**17,608**	14,512
		37,788	32,322

(All amounts in RMB millions unless otherwise stated)

20. REVENUE

The tariffs for the services provided by the Group are subject to regulations by various government authorities, including the National Development and Reform Commission ("NDRC"), the Ministry of Industry and Information ("MIIT") and the provincial price regulatory authorities.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to approximately RMB3,603 million for the six months ended 30 June 2012 (for the six months ended 30 June 2011: approximately RMB3,065 million).

The major components of revenue are as follows:

	Six months ended 30 June	
	2012	2011 (As restated)
Mobile business		
– Usage and monthly fees	**29,934**	26,403
– Value-added services revenue	**24,258**	17,326
– Interconnection fees	**6,014**	5,105
– Other service revenue	**275**	182
Total service revenue from mobile business	**60,481**	49,016
Fixed-line business		
– Usage and monthly fees	**10,360**	12,558
– Broadband, data and other Internet-related services revenue	**21,348**	18,761
– Interconnection fees	**2,191**	2,389
– Value-added services revenue	**2,205**	2,313
– Leased line income	**3,838**	3,363
– Information communication technology services revenue	**1,016**	805
– Upfront connection fees	**—**	15
– Other service revenue	**546**	714
Total service revenue from fixed-line business	**41,504**	40,918
Other service revenue	**408**	449
Total service revenue	**102,393**	90,383
Sales of telecommunications products	**19,297**	11,035
	121,690	101,418

(All amounts in RMB millions unless otherwise stated)

21. NETWORKS, OPERATIONS AND SUPPORT EXPENSES

	Six months ended 30 June	
	2012	2011 (As restated)
Repair and maintenance	**4,828**	4,434
Power and water charges	**5,279**	4,764
Operating leases for networks, premises, equipment and facilities	**4,984**	4,321
Others	**551**	516
	15,642	14,035

22. EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2012	2011 (As restated)
Salaries and wages	**10,677**	9,817
Contributions to defined contribution pension schemes	**1,516**	1,386
Contributions to medical insurance	**618**	487
Contributions to housing fund	**820**	727
Other housing benefits	**95**	89
Share-based compensation	**14**	17
	13,740	12,523

23. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2012	2011
Handsets	**22,098**	13,300
Wireless data cards	**340**	446
Telephone cards	**431**	479
Others	**86**	68
	22,955	14,293

(All amounts in RMB millions unless otherwise stated)

24. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2012	2011 (As restated)
Provision for doubtful debts	**1,584**	1,441
Cost in relation to information communications technology services	**870**	707
Commission expenses	**10,154**	8,138
Advertising and promotion expenses	**2,334**	2,077
Customer installation cost	**1,399**	1,307
Customer acquisition and retention cost	**2,490**	2,074
Property management fee	**961**	785
Office and administrative expenses	**1,550**	1,575
Transportation expense	**975**	926
Miscellaneous taxes and fees	**379**	360
Others	**1,467**	1,370
	24,163	20,760

25. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
Finance costs:		
– Interest on bank loans repayable within 5 years	**834**	702
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	**1,389**	784
– Interest on convertible bonds repayable within 5 years	**105**	107
– Interest on related party loans repayable within 5 years	**14**	10
– Interest on bank loans repayable over 5 years	**3**	3
– Interest on corporate bonds repayable over 5 years	**—**	45
– Less: Amounts capitalised in construction-in-progress	**(660)**	(489)
Total interest expense	**1,685**	1,162
– Exchange loss/(gain), net	**122**	(446)
– Others	**240**	177
	2,047	893

(All amounts in RMB millions unless otherwise stated)

26. OTHER INCOME - NET

	Six months ended 30 June	
	2012	2011
Dividend income from financial assets at fair value through other comprehensive income	**412**	446
Others	**212**	155
	624	601

27. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA S.A. ("TELEFÓNICA") IN EACH OTHER

On 6 September 2009, the Company announced that in order to strengthen the cooperation between the Company and Telefónica, the parties entered into a strategic alliance agreement and a subscription agreement, 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 23 January 2011, the Company entered into an agreement to enhance the strategic alliance with Telefónica that: (a) Telefónica would purchase ordinary shares of the Company for a consideration of USD500 million through acquisition from third parties; and (b) the Company would acquire from Telefónica 21,827,499 ordinary shares of Telefónica held in treasury ("Telefónica Treasury Shares") for an aggregate purchase price of Euro374,559,882.84. On 25 January 2011, the Company completed the purchase of Telefónica Treasury Shares in accordance with the strategic agreement. During 2011, Telefónica completed its investment of USD500 million in the Company.

As at 30 June 2012, the related financial assets at fair value through other comprehensive income amounted to approximately RMB5,241 million (31 December 2011: approximately RMB6,837 million). For the six months ended 30 June 2012, decrease in fair value of the financial assets through other comprehensive income was approximately RMB1,743 million (for the six months ended 30 June 2011: increase of approximately RMB408 million). The decrease, net of tax impact, of approximately RMB1,307 million (for the six months ended 30 June 2011: increase, net of tax impact, of approximately RMB306 million) was recorded in the unaudited condensed consolidated interim statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

28. EQUITY-SETTLED SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "Share Option Scheme") on 1 June 2000 for the granting of share options to qualified employees, with terms amended in May 2002, May 2007 and May 2009, respectively.

In connection with the merger between the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") in 2008, the Company adopted the Special Purpose Share Option Scheme ("Special Purpose Share Option Scheme") on 16 September 2008 for the granting of share options to holders of China Netcom options outstanding at 14 October 2008, with terms amended in May 2009.

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

	Six months ended 30 June			
	2012		2011	
	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	**6.49**	**391,481,158**	6.59	396,012,118
Granted	—	—	—	—
Lapsed	—	—	15.42	(1,806,000)
Exercised	—	—	15.42	(2,544,000)
Balance, end of period	**6.49**	**391,481,158**	6.49	391,662,118

No share options were exercised during the six months ended 30 June 2012. Exercise of share options during the six months ended 30 June 2011 resulted in 2,544,000 shares being issued with exercise proceeds of approximately RMB32.62 million.

Details of share options of the Company exercised during the six months ended 30 June 2011 are as follows:

Grant date	**Exercise price HKD**	**Weighted average closing price per share at respective days immediately before date of exercise of options HKD**	**Proceeds received HKD**	**Number of shares involved**
30 June 2001	15.42	16.32	39,228,480	2,544,000

As at 30 June 2012, all of the 391,481,158 outstanding share options (31 December 2011: 391,481,158), were exercisable, and the weighted average exercise price was HKD6.49 (31 December 2011: HKD6.49).

(All amounts in RMB millions unless otherwise stated)

28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

As at balance sheet date, the information of outstanding share options is summarised as follows:

Date of options grant	Vesting period	Exercisable period (Note i)	The price per share to be paid on exercise of options	Number of share options outstanding as at 30 June 2012	Number of share options outstanding as at 31 December 2011
Share options granted under the Share Option Scheme:					
21 May 2003	21 May 2003 to 21 May 2006	21 May 2004 to 20 May 2013	HKD4.30	**8,956,000**	8,956,000
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2013	HKD5.92	**41,024,000**	41,024,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2013	HKD6.20	**654,000**	654,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2014	HKD6.35	**151,556,000**	151,556,000
Share options granted under the Special Purpose Share Option Scheme:					
15 October 2008	15 October 2008 to 17 May 2009	15 October 2008 to 16 November 2013	HKD5.57	**100,361,690**	100,361,690
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2013	HKD8.26	**88,929,468**	88,929,468
				391,481,158	391,481,158

The options outstanding as at 30 June 2012 had a weighted average remaining contractual life of 1.44 years (31 December 2011: 0.94 years).

28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

Note i: In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board of Directors ("the BOD") pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the BOD as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" continued to be in force, the BOD further extended the exercise periods of certain share options by one year in each of March 2010, 2011 and 2012 under the relevant terms of the Share Option Scheme. As at 30 June 2012, approximately 23,440,000 share options held by Transferred Personnel remained valid.

Furthermore, in each of March 2010, 2011 and 2012, the expiry dates for certain share options were extended by one year by the BOD pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable due to "Mandatory Moratorium", which is still in force, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme. The 2011 modification and the 2012 modification did not have significant impact on the unaudited condensed consolidated interim statement of income for the six months ended 30 June 2011 and 2012, respectively.

29. DIVIDENDS

At the annual general meeting held on 29 May 2012, the shareholders of the Company approved the payment of a final dividend of RMB0.10 per ordinary share for the year ended 31 December 2011 totaling approximately RMB2,356 million (for the year ended 31 December 2010: final dividend of RMB0.08 per ordinary share, totaling approximately RMB1,885 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2012. Among the dividend payable of approximately RMB583 million as at 30 June 2012, dividend of approximately RMB551 million was due to Unicom BVI.

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from State Administration of Taxation, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2012, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed profits of the Company's subsidiaries in the PRC.

For the Company's non-PRC TRE enterprise shareholders, the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC TRE enterprise shareholders thereon and reclassify the related dividend payable to withholding tax payable upon the declaration of such dividends. The requirement to withhold tax does not apply to the Company's shareholders appearing as individuals in its share register.

30. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2012 and 2011 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2012 and 2011 were computed by dividing the profit attributable to owners of the parent 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 six months ended 30 June 2012 and 2011 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme, and (iii) the convertible bonds.

The potential ordinary shares which are not dilutive for the six months ended 30 June 2011 arose from the convertible bonds with initial conversion price of HKD15.85, 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:

	Six months ended 30 June	
	2012	2011 (As restated)
Numerator (in RMB millions):		
Profit attributable to owners of the parent used in computing basic earnings per share	**3,430**	2,617
Imputed finance cost on the liability component of convertible bonds	**105**	—
Profit attributable to owners of the parent used in computing diluted earnings per share	**3,535**	2,617
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	**23,565**	23,562
Dilutive equivalent shares arising from share options	**198**	210
Dilutive equivalent shares arising from convertible bonds	**902**	—
Shares used in computing diluted earnings per share	**24,665**	23,772
Basic earnings per share (in RMB)	**0.15**	0.11
Diluted earnings per share (in RMB)	**0.14**	0.11

(All amounts in RMB millions unless otherwise stated)

31. 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. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The PRC government controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of other state-controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers.

Management considers certain state-owned enterprises, which mainly include other telecommunications services operators, have material transactions with the Group in its ordinary course of business. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the unaudited condensed consolidated interim financial information. The Group's telecommunications networks depend, in large part, on interconnection with the networks and on transmission lines leased from other domestic carriers. Management believes that meaningful information relating to related party transactions has been disclosed below.

31.1 Transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

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.

	Six months ended 30 June	
	2012	2011 (As restated)
Transactions with Unicom Group and its subsidiaries:		
Leasing fee of telecommunications networks in Southern China	**1,300**	1,200
Charges for value-added telecommunications services	**16**	37
Rental charges for property leasing	**467**	463
Charges for lease of telecommunications resources	**147**	155
Charges for engineering design and construction services	**741**	520
Charges for shared services	**86**	81
Charges for equipment procurement services	**127**	88
Charges for ancillary telecommunications services	**621**	584
Charges for comprehensive support services	**138**	78
Income from comprehensive support services	**54**	46

31. RELATED PARTY TRANSACTIONS (CONTINUED)

31.1 Transactions with Unicom Group and its subsidiaries (Continued)

(b) Renewal of continuing connected transactions in October 2010

On 29 October 2010, CUCL entered into the new agreements, "2011-2012 Network Lease Agreement" with Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon"), and "2011 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions as disclosed in (a) above. Major terms of the new agreements are set out as follows:

- 2011-2012 Network Lease Agreement

  Pursuant to 2011-2012 Network Lease Agreement, the lease of telecommunications networks in Southern China has extended to another two years effective from 1 January 2011 to 31 December 2012 and is renewable at the option of CUCL with at least two months' prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties, taking into account, among others, the then prevailing market conditions in Southern China. The annual fee payable by CUCL for the lease for the two years ending 31 December 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively.

- 2011 Comprehensive Services Agreement

  2011 Comprehensive Services Agreement has a term of three years commencing on 1 January 2011 and expiring on 31 December 2013, and the service fees payable shall be calculated on the same basis as under previous agreements.

(c) Amounts due from and to related parties/Unicom Group and its subsidiaries

Amounts due to related parties as at 30 June 2012 included the unsecured short-term loans from China Netcom Corporation (BVI) Limited of HKD2,630 million (equivalent to approximately RMB2,144 million) (31 December 2011: HKD2,630 million, equivalent to approximately RMB2,132 million). The loans carry interest rate at HKD HIBOR plus 0.8% per annum. The Company repaid HKD2,500 million (equivalent to approximately RMB2,041 million) in July 2012 and the remaining balance is repayable in 2012.

In addition, amounts due to related parties as at 30 June 2012 included an unsecured short-term loan from Unicom Group BVI of HKD30 million (equivalent to approximately RMB24 million) (31 December 2011: HKD30 million, equivalent to approximately RMB24 million). The loan carries interest rate at HKD HIBOR plus 0.1% per annum and is repayable in 2012.

Amounts due to Unicom Group as at 30 June 2012 and 31 December 2011 included the consideration payable in connection with 2011 Business Combination of approximately RMB158 million.

Apart from the short-term loans and consideration payable as aforementioned, amounts due from and to related parties, 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 related parties/Unicom Group and its subsidiaries as described in (a) above.

(All amounts in RMB millions unless otherwise stated)

31. RELATED PARTY TRANSACTIONS (CONTINUED)

31.2 Domestic carriers

(a) Significant recurring transactions with domestic carriers

The following is a summary of significant transactions with domestic carriers in the ordinary course of business:

	Six months ended 30 June	
	2012	2011
Interconnection revenue	**7,066**	6,427
Interconnection charges	**8,264**	7,094
Leased line revenue	**139**	178
Leased line charges	**15**	8
Engineering design and technical service revenue	**112**	102

(b) Amounts due from and to domestic carriers

	30 June 2012	31 December 2011
Amounts due from domestic carriers		
– Receivables for interconnection revenue, leased line revenue and engineering design and technical service revenue	**968**	1,230
– Less: Provision for doubtful debts	**(35)**	(49)
	933	1,181
Amounts due to domestic carriers		
– Payables for interconnection charges and leased line charges	**1,434**	1,344

All amounts due from and to domestic carriers are unsecured, interest-free and repayable within one year.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

31.3 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2012 and 2011 are set out below:

	Six months ended 30 June	
	2012 (RMB' 000)	2011) (RMB' 000)
Non-executive directors:		
Fees	**967**	965
Other benefits (a)	**—**	—
	967	965
Executive directors:		
Fees	**—**	—
Other emoluments		
- Salaries and allowances	**550**	461
- Bonuses paid and payable	**1,250**	1,048
- Other benefits (a)	**5**	8
- Contributions to pension schemes	**64**	57
	1,869	1,574
	2,836	2,539

(a) Other benefits represent the share-based compensation cost recognised during the relevant periods for the share options granted to the directors of the Company under the Company's share option schemes.

(All amounts in RMB millions unless otherwise stated)

32. CONTINGENCIES AND COMMITMENTS

32.1 Capital commitments

As at 30 June 2012 and 31 December 2011, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	30 June 2012			31 December 2011
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**720**	**7,350**	**8,070**	7,187
Authorised but not contracted for	**123**	**1,031**	**1,154**	1,630
	843	**8,381**	**9,224**	8,817

32.2 Operating lease commitments

As at 30 June 2012 and 31 December 2011, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	30 June 2012				31 December 2011
	Land and buildings	**Equipment**	**Tele-communications networks in Southern China (Note 31.1(b))**	**Total**	Total
Leases expiring:					
– not later than one year	**1,324**	**505**	**1,300**	**3,129**	4,433
– later than one year and not later than five years	**3,456**	**992**	**—**	**4,448**	4,574
– later than five years	**491**	**147**	**—**	**638**	601
	5,271	**1,644**	**1,300**	**8,215**	9,608

32. CONTINGENCIES AND COMMITMENTS (CONTINUED)

32.3 Contingent liabilities

As aforementioned in Note 20, the tariffs for the services provided by the Group are subject to regulations by various government authorities. In 2008, the NDRC investigated the compliance with tariffs regulations of several branches of CUCL and China Netcom (Group) Company Limited, which merged with CUCL on 1 January 2009. Based on management's assessment and continuous discussions with MIIT and NDRC, management considered that the Group complied with the regulations issued by the relevant government authorities, and the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 30 June 2012 and 31 December 2011.

In addition, in 2011, the NDRC investigated the alleged monopolistic conducts in the broadband internet business of the Group. Based on management's assessment and continuous discussions with NDRC, management considered the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 30 June 2012 and 31 December 2011.

33. EVENTS AFTER THE REPORTING PERIOD

On 12 July 2012, CUCL issued tranche one of 2012 commercial paper in an amount of RMB15 billion, with a maturity date of 365 days from the date of issue and carries interests at 3.45% per annum.

34. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 23 August 2012.

Report on Review of Interim Financial Information

To the Board of Directors of China Unicom (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 9 to 43, which comprises the condensed consolidated interim balance sheet of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows 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 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 to be in compliance with either International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants, depending on whether the issuer's annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") or Hong Kong Financial Reporting Standards ("HKFRSs") respectively. As the annual financial statements of the Group are prepared in accordance with both IFRSs and HKFRSs, the directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with both IAS 34 and HKAS 34. 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 International Accounting Standard 34 "Interim Financial Reporting" and Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2012

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme, which was amended on 13 May 2002, 11 May 2007 and 26 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme was to provide incentives and rewards to employees who have made contributions to the development of the Company. The Share Option Scheme was valid and effective for a period of 10 years commencing on 21 June 2000 and expired on 21 June 2010. Following the expiry of the Share Option Scheme, no further share option can be granted under the Share Option Scheme, but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Under the Share Option Scheme:

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

(2) any grant of share options to a Connected Person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 in the case such director is a grantee of the options);

(3) the maximum number of shares in respect of which share 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 share option is 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 share 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 share options granted to a participant of the Share Option Scheme (including both exercised and outstanding share 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 2012, 202,190,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.86% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 1,896,000 share options were held by the Directors and their associates as at 30 June 2012. Please refer to the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" for details. All of the share options granted and outstanding as at 30 June 2012 are governed by the terms of the Share Option Scheme.

During the six months ended 30 June 2012, no share option granted under the Share Option Scheme was exercised.

2. Special Purpose Share Option Scheme

On 16 September 2008, the Company adopted a special purpose share option scheme (the "Special Purpose Share Option Scheme") in connection with the merger of the Company and China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") by way of a scheme of arrangement (the "Scheme") of China Netcom under Section 166 of the Hong Kong Companies Ordinance (the "Companies Ordinance"). The Special Purpose Share Option Scheme provides the Company with a means to incentivise and retain the holders of share options (the "Netcom Options") granted under the share option scheme adopted by China Netcom (the "Netcom Share Option Scheme"), who were middle to senior management staff of China Netcom and its subsidiaries, and to encourage them to contribute to increasing the value of the Company. The Special Purpose Share Option Scheme is valid and effective during the period commencing on 15 October 2008 and ending on 30 September 2014, being the date falling 10 years after the date on which the Netcom Share Option Scheme was adopted. The terms of the Special Purpose Share Option Scheme were amended on 26 May 2009. The principal terms of the Special Purpose Share Option Scheme are summarised below:

A. Grant of Special Unicom Options and Exercise Price

(i) The maximum number of share options (the "Special Unicom Options") granted to each eligible participant (the "Eligible Participant") under the Special Purpose Share Option Scheme and the exercise price of such options are determined in accordance with the following formula:

Number of Special Unicom Options = X x Y
Exercise price of each Special Unicom Option = Z/X

where:

X is the exchange ratio (the "Share Exchange Ratio") of 1.508 shares in the Company for each China Netcom share cancelled under the Scheme;

Y is the number of outstanding Netcom Options held by an Eligible Participant as at 5:00 p.m. (Hong Kong time) on 14 October 2008 (the "Scheme Record Time"); and

Z is the exercise price of an outstanding Netcom Option held by an Eligible Participant at the Scheme Record Time.

Fractions of Special Unicom Options were not granted to the Eligible Participants.

Based on the formulae set out above, the exercise price of a Special Purpose 2004 Unicom Option (as defined below) is HKD5.57 and the exercise price of a Special Purpose 2005 Unicom Option (as defined below) is HKD8.26. The Board has the right to make corresponding alterations to the number of shares involved in the Special Unicom Options and the exercise price in the event of a capitalization issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital. Such adjustments shall give the Eligible Participants the same proportion of the issued share capital to which they would have been entitled prior to such alteration, and shall not cause the Company's shares to be issued below its par value.

(ii) No amount is payable on acceptance of the grant of a Special Unicom Option.

B. *Exercise of Special Unicom Options*

The Special Unicom Options are exercised in accordance with the following vesting schedules:

(i) Special Unicom Options granted to the Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the "2004 Netcom Options") and held as at the Scheme Record Time (the "Special Purpose 2004 Unicom Options") are effective from 15 October 2008 until 16 November 2013 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2013 shall lapse automatically. The respective exercise periods of the Special Purpose 2004 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" below; and

(ii) Special Unicom Options granted to Eligible Participants in respect of the Netcom Options granted to them on 6 December 2005 (the "2005 Netcom Options") and held by them as at the Scheme Record Time (the "Special Purpose 2005 Unicom Options") are effective from 15 October 2008 until 5 December 2013 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised by 5 December 2013 shall lapse automatically. The respective exercise periods of the Special Purpose 2005 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" below.

Please refer to the Company's circular issued on 15 August 2008 for further details on the terms of the Special Purpose Share Option Scheme.

As at 30 June 2012, 189,291,158 share options had been granted and remained valid under the Special Purpose Share Option Scheme, representing approximately 0.80% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 723,840 share options were held by a Director as at 30 June 2012. All of the share options granted and outstanding as at 30 June 2012 are governed by the terms of the Special Purpose Share Option Scheme.

During the six months ended 30 June 2012, no share option granted under the Special Purpose Share Option Scheme was exercised.

3. Interest of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme

	Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2012[1]	Movement During the Period			No. of Options Outstanding as at 30 June 2012[1]
					Granted[1]	Exercised[1]	Lapsed[1]	
Directors								
Chang Xiaobing	Beneficial owner	21 December 2004	6.20	526,000	—	—	—	526,000
(Chairman and CEO)	(Personal)	15 February 2006	6.35	746,000	—	—	—	746,000
								1,272,000
Lu Yimin	—	—	—	—	—	—	—	—
Tong Jilu	Beneficial owner	20 July 2004	5.92	92,000	—	—	—	92,000
	(Personal)	15 February 2006	6.35	460,000	—	—	—	460,000
	Beneficial owner	20 July 2004	5.92	32,000	—	—	—	32,000
	(Spouse)	15 February 2006	6.35	40,000	—	—	—	40,000
								624,000
Li Fushen	Beneficial owner (Personal)	15 October 2008	5.57	723,840	—	—	—	723,840
Cesareo Alierta Izuel	—	—	—	—	—	—	—	—
Cheung Wing Lam Linus	—	—	—	—	—	—	—	—
Wong Wai Ming	—	—	—	—	—	—	—	—
John Lawson Thornton	—	—	—	—	—	—	—	—
Chung Shui Ming Timpson	—	—	—	—	—	—	—	—
Cai Hongbin	—	—	—	—	—	—	—	—
Employees		21 May 2003	4.30	8,956,000	—	—	—	8,956,000
		20 July 2004	5.92	40,900,000	—	—	—	40,900,000
		21 December 2004	6.20	128,000	—	—	—	128,000
		15 February 2006	6.35	150,310,000	—	—	—	150,310,000
		15 October 2008	5.57	99,637,850	—	—	—	99,637,850
		15 October 2008	8.26	88,929,468	—	—	—	88,929,468
								388,861,318[2]
Total				**391,481,158**				**391,481,158**

Notes:

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

2. The share options outstanding as at 30 June 2012 include approximately 23,440,000 share options held by the option holders who were determined by the Board as "Transferred Personnel" under the applicable share option schemes due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring.

3. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Share Option Scheme:		
21 May 2003	*4.30*	*21 May 2004 to 20 May 2013 (in respect of 40% of the options granted)* *21 May 2005 to 20 May 2013 (in respect of 30% of the options granted)* *21 May 2006 to 20 May 2013 (in respect of the remaining 30% of the options granted)*
20 July 2004	*5.92*	*20 July 2005 to 19 July 2013 (in respect of 40% of the options granted)* *20 July 2006 to 19 July 2013 (in respect of 30% of the options granted)* *20 July 2007 to 19 July 2013 (in respect of the remaining 30% of the options granted)*
21 December 2004	*6.20*	*21 December 2005 to 20 December 2013 (in respect of 40% of the options granted)* *21 December 2006 to 20 December 2013 (in respect of 30% of the options granted)* *21 December 2007 to 20 December 2013 (in respect of the remaining 30% of the options granted)*
15 February 2006	*6.35*	*15 February 2008 to 14 February 2014 (in respect of 50% of the options granted)* *15 February 2009 to 14 February 2014 (in respect of the remaining 50% of the options granted)*
Options Granted under the Special Purpose Share Option Scheme:		
15 October 2008	*5.57*	*15 October 2008 to 16 November 2013 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2006 to 16 November 2010; 17 May 2007 to 16 November 2010 and 17 May 2008 to 16 November 2010, respectively)* *17 May 2009 to 16 November 2013 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2009 to 16 November 2010)*
15 October 2008	*8.26*	*15 October 2008 to 5 December 2013 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2007 to 5 December 2011)* *6 December 2008 to 5 December 2013 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2008 to 5 December 2011)* *6 December 2009 to 5 December 2013 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2009 to 5 December 2011)* *6 December 2011 to 5 December 2013 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2010 to 5 December 2011)*

* *In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" continued to be in force, the Board further extended the exercise periods of certain share options by one year in each of March 2010, 2011 and 2012 under the relevant terms of the Share Option Scheme. As at 30 June 2012, approximately 23,440,000 share options held by Transferred Personnel (as discussed in Note 2 above) remained valid.*

Furthermore, in each of March 2010, 2011 and 2012, the expiry dates for certain share options were extended by one year by the Board pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable due to "Mandatory Moratorium", which is still in force, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2012, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

Director	Capacity	Ordinary Shares Held	Percentage of Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	400,000	0.0017%
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.0000%

Please refer to the subsection headed "Share Option Schemes of the Company - 3. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" hereinabove for the interests and rights to acquire shares held by the Directors and the chief executive of the Company as at 30 June 2012 under the Share Option Scheme and the Special Purpose Share Option Scheme.

Apart from those disclosed herein, at no time during the six months ended 30 June 2012 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 acquiring shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

Furthermore, apart from those disclosed herein, as at 30 June 2012, none of the Directors or the chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of 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 each person, other than a director or a chief executive of the Company, in the shares or underlying shares of the Company as notified to the Company and recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2012:

		Ordinary Shares Held		Percentage of Issued Shares
		Directly	Indirectly	
(i)	China United Network Communications Group Company Limited ("Unicom Group")[1,2,5]	—	18,032,853,047	76.52%
(ii)	China United Network Communications Limited ("Unicom A Share Company")[1]	—	9,725,000,020	41.27%
(iii)	China Unicom (BVI) Limited ("Unicom BVI")[1]	9,725,000,020	—	41.27%
(iv)	China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI", formerly known as "China Netcom Group Corporation (BVI) Limited") [2,3,5]	8,082,130,236	225,722,791	35.26%
(v)	Telefónica S.A. ("Telefónica")[4,5]	—	2,254,378,708	9.57%
(vi)	Telefónica Internacional S.A.U.[4,5]	2,254,378,708	—	9.57%

Notes:

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

2. *Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. In accordance with the SFO, the interests of Unicom Group BVI are deemed to be, and have therefore been included in, the interests of Unicom Group.*

3. *Unicom Group BVI holds 8,082,130,236 shares (representing 34.30% of the issued shares) of the Company directly, including 1,073,777,121 shares of the Company as referred to in Note 5 below. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.96% of the issued shares) of the Company held as trustee on behalf of a PRC shareholder.*

4. *Telefónica Internacional S.A.U. is a wholly-owned subsidiary of Telefónica. In accordance with the SFO, the interests of Telefónica Internacional S.A.U, are deemed to be, and have therefore been included in, the interests of Telefónica.*

5. *On 10 June 2012, Unicom Group BVI entered into an agreement pursuant to which it had agreed to acquire from Telefónica Internacional S.A.U. an aggregate of 1,073,777,121 shares of the Company, representing approximately 4.56 % of the issued shares of the Company as at the date of the agreement. As at 30 June 2012, each of Unicom Group BVI and Telefonica Internacional S.A.U.is deemed under the SFO to be interested in such 1,073,777,121 shares of the Company. The transaction was subsequently completed on 30 July 2012. Following completion of the transaction, Unicom Group BVI and Telefónica Internacional S.A.U. held 8,082,130,236 and 1,180,601,587 shares of the Company, representing approximately 34.30% and 5.01% of the issued shares of the Company as at 30 July 2012, respectively. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.96% of the issued shares) of the Company held as trustee on behalf of a PRC shareholder.*

Apart from the foregoing, as at 30 June 2012, no person 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 12 to the interim financial information for details of the share capital of the Company.

Other Information

INTERIM DIVIDEND

It was resolved by the Board that no interim dividend for the six months ended 30 June 2012 will be paid.

CHARGE ON ASSETS

As at 30 June 2012, no property, plant and equipment was pledged to banks as loan security (31 December 2011: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had 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 and CEO)
Lu Yimin
Tong Jilu
Li Fushen

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

Cheung Wing Lam Linus
Wong Wai Ming
John Lawson Thornton
Chung Shui Ming Timpson
Cai Hongbin

CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of our Directors since the publication of the Company's 2011 annual report:

- Mr. Cheung Wing Lam Linus was re-designated as an independent non-executive director of HKR International Limited and was appointed Chairman of Centennial College.
- Mr. Chung Shui Ming Timpson was appointed as an independent non-executive director of China Everbright Limited.
- Mr. Cai Hongbin was appointed as an outside director of China Petrochemical Corporation and was awarded as Fellow of the Econometric Society.
- Mr. John Lawson Thornton was appointed the co-chairman of Barrick Gold Corporation.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson and Mr. Cai Hongbin, all being independent non-executive directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the "independence" requirements in relation to an Audit Committee member under applicable laws, regulations and rules. Amongst the members of the Audit Committee, one member is an accountant with extensive accounting professional experience, and the Chairman of the Audit Committee is a chartered accountant with expertise and experience in accounting and financial management.

The major responsibilities of the Audit Committee include: as the key representative body for overseeing the Company's relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor's independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the internal control system with the management and reviewing the reports on the internal control procedures of the Company.

The Audit Committee, together with the management of the Company, has 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 2012.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson and Mr. Cai Hongbin, all being independent non-executive directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

The major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies and structure for Directors' and senior management's remuneration; considering and making recommendation to the Board on the remuneration packages of Directors and senior management; and considering and approving the Company's share option schemes. The Remuneration Committee conducts performance review of the Chief Executive Officer (the "CEO") and determines the CEO's year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance review and determination of performance-based year-end bonuses for the other members of the Company's management, which is subject to the review of the Remuneration Committee. In addition, the Remuneration Committee consults the Chairman on the remuneration proposals for other executive directors.

NOMINATION COMMITTEE

The Nomination Committee comprises Mr. Cai Hongbin, Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson. Except for Mr. Chang Xiaobing, who is the Chairman and CEO of the Company, each of Mr. Cai Hongbin, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson is an independent non-executive director of the Company. The Chairman of the Nomination Committee is Mr. Cai Hongbin.

The major responsibilities of the Nomination Committee include: reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; giving its opinion to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

CORPORATE GOVERNANCE

1. Compliance with Corporate Governance Code

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Corporate Governance Code (the "Code Provision") as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2012 except the following:

(a) Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive should be separate and should not be performed by the same individual. The Board understands that the principle of Code Provision A.2.1 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 serves as Chairman and CEO of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Chang Xiaobing is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

The Board believes that at the present stage, Mr. Chang Xiaobing and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities. These arrangements also facilitate 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.

(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 general meetings and re-election by shareholders pursuant to the Company's memorandum and articles of association. All Directors of the Company are subject to retirement by rotation at least once every three years.

(c) Under Code Provision A.6.7, directors should attend general meetings. Due to overseas commitments or engagement in other unavoidable matters, one non-executive director and four independent non-executive directors were unable to attend the annual general meeting of the Company held on 29 May 2012.

2. Model Code for Securities Transactions by Directors

The Company has established the "Code for Dealing of Securities by Directors" in accordance with the "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 to Directors as to their respective compliance with the relevant code for securities transactions for the six months ended 30 June 2012, and all of the Directors have confirmed such compliance.

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

Compliance with the requirements under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") has been an area of emphasis for the Company. The relevant sections of the Sarbanes-Oxley Act require the management of non-U.S. issuers with equity securities listed on U.S. stock exchanges to issue reports and make representations as to internal control over financial reporting.

The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting as at 31 December 2011. The management's assessment report was included in the Company's annual report on Form 20-F for the year ended 31 December 2011 ("Form 20-F"), as filed with the United States Securities and Exchange Commission on 25 April 2012.

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 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. In addition, the Company is subject to the listing standards of the New York Stock Exchange to the extent they apply to non-U.S. issuers. 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 website (www.chinaunicom.com.hk) and Form 20-F a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.

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 2011 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2012, the Group had approximately 215,450 employees, 180 employees and 70 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 79,660 temporary staff in Mainland China. For the six months ended 30 June 2012, employee benefit expenses were approximately RMB13.740 billion (for the six months ended 30 June 2011: RMB12.523 billion). The Group endeavors to maintain its employees' remuneration in line with the market trend and to remain competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus policies based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, tailored in accordance with individual needs.

FORWARD-LOOKING STATEMENTS

This interim report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to the Company's competitive position; the Company's business strategies and plans, including those relating to the Company's networks, products and services, as well as sales and marketing, in particular, such networks, products and services, sales and marketing in respect of the Company's 3G business; the Company's future business condition, future financial results, cash flows, financing plans and dividends; the future growth of market demand of, and opportunities for, the Company's new and existing products and services, in particular, 3G services; and future regulatory and other developments in the PRC telecommunications industry.

The words "anticipate", "believe", "could", "estimate", "intend", "may", "seek", "will" and similar expressions, as they relate to us, are intended to identify certain of these forward-looking statements. The Company does not intend to update any of these forward-looking statements.

The forward-looking statements contained in this interim report are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect the Company's current views with respect to future events and are not a guarantee of the Company's future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of a number of factors, including, without limitation:

- changes in the regulatory regime and policies for the PRC telecommunications industry, including, without limitation, changes in the regulatory policies of the Ministry of Industry and Information Technology (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, and other relevant government authorities of the PRC;

- changes in the PRC telecommunications industry resulting from the issuance of 3G licenses by the central government of the PRC;

- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;

- changes in telecommunications and related technologies and applications based on such technologies;

- the level of demand for telecommunications services, in particular, 3G services;

- competitive forces from more liberalized markets and the Company's ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;

- effects of competition on the demand and price of the Company's telecommunications services;

- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

Other Information

- the result of the anti-monopoly investigation by the National Development and Reform Commission of the PRC relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers;
- changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans; and
- changes in the political, economic, legal and social conditions in the PRC, including the PRC government's policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry.

Please also see the "Risk Factors" section of the Company's latest Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission.

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 23 August 2012