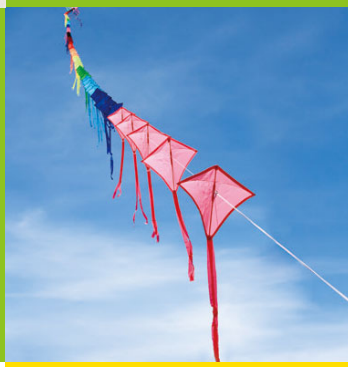
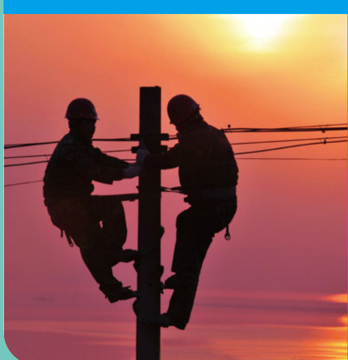
Growth

INTERIM REPORT 2013



China unicom 中国联通

Innovation



Hard Work

CHINA UNICOM (HONG KONG) LIMITED
Incorporated in Hong Kong with limited liability
Stock Code: 0762

GROWTH

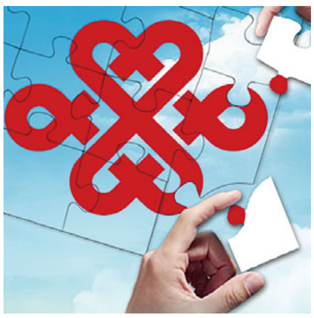
INNOVATION

Leveraging on its 3G advantages, China Unicom has been outperforming the industry in revenue growth over the recent years.

Nationwide refill card, nationwide 3G packages, advanced e-commerce platform and industry apps. China Unicom has been leading the industry transformation by continuous innovations.

Concept, Design, Printing and Production: iOne Financial Press Limited

HARD WORK



Every success China Unicom has been achieving among the fierce competition relies upon the hard work of its employees. They are the heroes of China Unicom.

Contents

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Chang Xiaobing
Chairman & CEO

DEAR SHAREHOLDERS,

First at all, on behalf of the Board of Directors of China Unicom, I would like to express my sincere gratitude to the shareholders and the different parts of the society for their support. In the first half of 2013, the Company continued to promote scale and profitable development and achieved new remarkable progresses in various areas.

OVERALL RESULTS

In the first half of 2013, the Company maintained a rapid revenue growth. Its operating revenue reached RMB144.31 billion, representing an increase of 18.6% over the same period last year, of which, service revenue was RMB116.48 billion, up by 13.8% year-on-year. The Company's business structure was further optimised, with mobile business and non-voice business accounting for 62.5% and 55.3% of total service revenue respectively. The Company achieved continuous improvement in profitability, with profit growing faster than revenue and revenue growing faster than cost. Its EBITDA increased by 17.0% year-on-year to RMB42.18 billion, and net profit by 55.0% to RMB5.32 billion. The Company's operating cash flow increased by 16.1% to RMB41.27 billion, and free cash flow was further improved. The Company's overall financial status turned more solid, laying a more solid foundation for the sustainable growth in the future.

BUSINESS DEVELOPMENT

3G driving the scale development of mobile business. The Company proactively promoted integrated mobile operation and accelerated 2G/3G integrated development to drive the scale business growth. In the first half year, the Company's 3G service revenue increased by 52.1% year-on-year to RMB40.91 billion, and its proportion to mobile service revenue reached 56.2%. The Company's 3G subscribers exceeded 100 million, representing an increase of 73.9% over the same period last year, and the 3G penetration in mobile subscribers reached 38.2%. 3G ARPU remained at a relatively high level of RMB77.6. The Company leveraged its differentiated advantage in mobile data service and enhanced data volume operation to stimulate data demand. The data usage of the Company's handset users grew by 131.3% as compared to the same period last year.

Broadband upgrade driving the steady growth in fixed-line revenue. The Company proactively carried out the deployment of fiber optic network to enhance the speed advantage of its broadband access, and improved the sales and marketing capabilities through such measures as service commitment. In the first half year, the Company's broadband service revenue[1] increased by 10.4% year-on-year to RMB22.58 billion, and its proportion to fixed-line service revenue exceeded 50%. The Company's broadband subscribers[1] increased by 4.035 million to 62.575 million. The Company further leveraged the advantage of its full-service offering and enriched its bundling packages. The penetration rate of "WO Family" subscribers in the Company's residential broadband subscribers reached 33.1%, representing an increase of 7.7 percentage points over the same period last year.

Informatisation applications driving the rapid development of enterprise customer business. To accelerate the scale development, the Company centered on key industry applications to proactively promote strategic cooperation with enterprise customers, leveraged on the implementation of its "Smart City" strategy, and established the cloud-computing based integrated platform for industry applications to improve the resource use efficiency. In the first half year, the service revenue from enterprise customers increased by 22.0% year-on-year, and the key industry applications users reached 31.14 million. The Company maintained its leading position in the areas such as mobile office, auto informatisation and wireless surveillance.

NETWORK CAPABILITIES

To support its sustainable growth in the future, the Company further enhanced its network capabilities with a focus on network architecture as well as mobile, broadband and transmission networks so as to strengthen its network advantages in broadband and mobile Internet. In the first half year, the Company added 33 thousand new 3G base stations, and opened HSPA+ 21Mbps services over the whole 3G network, with speed up to 42Mbps at some urban hot spot areas. The Company accelerated fiber optic deployment. Its broadband access ports increased by 19.9% year-on-year, and FTTH/B accounted for 63% of total access ports, representing an increase of 10 percentage points over the same period last year. In order to better meet the demand from HSPA+, LTE and integrated services, the Company optimised the structure and enhanced the coverage of its infrastructure and transmission networks.

MANAGEMENT AND INNOVATION

The Company committed itself to the customer-oriented service transformation and proactively promoted e-commerce. In the first half year, the sales generated by online stores reached RMB25.87 billion, up by 65.0% year-on-year, and the share of service transactions that were conducted over e-channel increased by 12 percentage points to 46% as compared to last year. By exploring new customer service channels such as Weibo, handset and instant message, the Company lowered its customer complaint rate by 3.5% as compared to the same period last year. Guided by international best practices, the Company continued to improve its internal control mechanism to ensure the sustainable and healthy development of the Company. The Company continued to promote innovation, and its "Billing Information Online Inquiry System for Mobile Internet Users" won the second prize of National Science and Technology Award. The Company fully fulfilled its social responsibilities and made its due contributions to various social activities. The Company took an active role in the rescue and relief activities during Lushan (蘆山) Earthquake, and provided communications support to important events such as the "Shenzhou 10 (神舟十號)" Launch.

OUTLOOK

Looking forward, the Chinese government has greatly increased its efforts to promote the simultaneous development of industrialisation, informatisation, urbanisation and agricultural modernisation. With the further implementation of the "Broadband China" Strategy as well as the government's initiatives to stimulate ICT consumption, the information and communications industry possesses huge growth potential. With opportunities and challenges, the Company will continue to leverage its differentiated competitive advantages and strive to enhance the capabilities in sales and marketing as well as customer service so as to accelerate scale and quality development of its key businesses. The Company will optimise its management mode in investment and construction to improve investment efficiency and network capabilities. The Company will fully implement delicacy management to ensure continuous improvement in efficiency and profitability. In the meantime, the Company will make appropriate preparations in network deployment, business model and IT system to respond to possible changes in the regulatory policies. The Company remains full of confidence about its overall development in the future.

Chang Xiaobing
Chairman and Chief Executive Officer
Hong Kong, 8 August 2013

Note 1: To be comparable with other telecom operators, computation basis of broadband subscribers was adjusted from 2013 as follows: including Internet leased line users and not applying LAN user account conversion. For the year ended 31 December 2012, after adjustment, the number of broadband subscribers was 58.540 million. Correspondingly, service revenue from the broadband business included service revenue from the Internet leased line users. After adjustment, the service revenue from the broadband business changed from RMB19.40 billion to RMB20.46 billion in the first half of 2012.

Financial Overview

REVENUE

In the first half of 2013, total revenue was RMB144.31 billion, up by 18.6% as compared to the same period of last year. Out of total revenue, service revenue was RMB116.48 billion, up by 13.8% as compared to the same period of last year.

In the first half of 2013, service revenue from the mobile business was RMB72.85 billion, up by 20.5% as compared to the same period of last year. Out of service revenue from the mobile business, service revenue from 3G business was RMB40.91 billion and, as a percentage of service revenue from the mobile business, there was an increase from 44.5% in the first half of 2012 to 56.2% in the first half of 2013.

In the first half of 2013, service revenue from the fixed-line business was RMB43.25 billion, up by 4.2% as compared to the same period of last year. Out of service revenue from the fixed-line business, service revenue from the broadband business[1] was RMB22.58 billion, up by 10.4% as compared to the same period of last year and, as a percentage of service revenue from the fixed-line business, there was an increase from 49.3% in the first half of 2012 to 52.2% in the first half of 2013.

COSTS AND EXPENSES[2]

In the first half of 2013, total costs and expenses were RMB137.22 billion, up by 17.2% as compared to the same period of last year and 1.4 percentage points lower than the increase in total revenue in the first half of 2013.

The Company further expanded its network assets, depreciation and amortisation charge[3] were RMB33.91 billion in the first half of 2013, up by 12.4% as compared to the same period of last year and, as a percentage of service revenue, there was a decrease from 29.5% in the first half of 2012 to 29.1% in the first half of 2013.

As the Company continued to strengthen cost control, network, operation and support expenses were RMB15.99 billion in the first half of 2013, up by 2.2% as compared to the same period of last year and, as a percentage of service revenue, there was a decrease from 15.3% in the first half of 2012 to 13.7% in the first half of 2013.

To cope with keen market competition, the Company continued to accelerate the user development. As a result, selling and marketing expenses were RMB20.39 billion in the first half of 2013, up by 24.5% as compared to the same period of last year. 3G terminal subsidy cost was RMB4.22 billion in the first half of 2013 and, as a percentage of service revenue from 3G business, there was a decrease from 13.1% in the first half of 2012 to 10.3% in the first half of 2013.

EARNINGS

In the first half of 2013, profit before income tax was RMB7.09 billion and profit for the period was RMB5.32 billion, up by 55.0% as compared to the same period of last year. Basic earnings per share was RMB0.225 in the first half of 2013. EBITDA[4] was RMB42.18 billion in the first half of 2013, up by 17.0% as compared to the same period of last year. EBIDTA as a percentage of the service revenue was 36.2% in the first half of 2013.

OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2013, the Company's net cash flow from operating activities was RMB41.27 billion, up by 16.1% as compared to the same period of last year. Capital expenditure was RMB21.61 billion in the first half of 2013.

BALANCE SHEET

Liabilities-to-assets ratio changed from 59.4% as at 31 December 2012 to 58.0% as at 30 June 2013. Debt-to-capitalisation ratio changed from 40.4% as at 31 December 2012 to 38.7% as at 30 June 2013.

Note 1: To be comparable with other telecom operators, computation basis of broadband subscribers was adjusted from 2013 as follows: including Internet leased line users and not applying LAN user account conversion. For the year ended 31 December 2012, after adjustment, the number of broadband subscribers was 58.540 million. Correspondingly, service revenue from the broadband business included service revenue from the Internet leased line users. After adjustment, the service revenue from the broadband business changed from RMB19.40 billion to RMB20.46 billion in the first half of 2012.

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

Note 3: The acquisition of the entire equity interest of Unicom New Horizon Telecommunications Company Limited ("Unicom New Horizon") from China United Network Communications Group Company Limited was completed on 26 December 2012. In accordance with International Financial Reporting Standard/Hong Kong Financial Reporting Standard 3 (Revised), a business generally consists of inputs, processes applied to those inputs and outputs. The business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing an economic return. Unicom New Horizon did not meet the definition of a business, therefore the acquisition of Unicom New Horizon was accounted as an asset purchase transaction in accordance with International Accounting Standard/Hong Kong Accounting Standard 16, "Property, plant and equipment" on the date of purchase. Depreciation and amortisation charges in the first half of 2013 included depreciation and amortisation charges of RMB1.14 billion attributed by the assets of Unicom New Horizon.

Note 4: 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 2013
(All amounts in Renminbi ("RMB") millions)

	Note	30 June 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	5	**419,021**	430,997
Lease prepayments		**7,587**	7,601
Goodwill		**2,771**	2,771
Deferred income tax assets	6	**8,182**	6,534
Financial assets at fair value through other comprehensive income	7	**5,197**	5,567
Other assets	8	**15,814**	14,480
		458,572	467,950
Current assets			
Inventories and consumables	9	**5,043**	5,803
Accounts receivable	10	**16,637**	13,753
Prepayments and other current assets	11	**10,898**	9,580
Amounts due from related parties	32.1	**17**	18
Amounts due from domestic carriers	32.2	**566**	738
Short-term bank deposits		**59**	32
Cash and cash equivalents		**13,423**	18,250
		46,643	48,174
Total assets		**505,215**	516,124
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital	12	**2,317**	2,311
Share premium	12	**174,043**	173,473
Reserves		**(20,972)**	(20,509)
Retained profits			
– Proposed 2012 final dividend	29	**–**	2,828
– Others		**56,714**	51,402
Total equity		**212,102**	209,505

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2013
(All amounts in RMB millions)

	Note	**30 June 2013**	31 December 2012
LIABILITIES			
Non-current liabilities			
Long-term bank loans	13	**502**	536
Corporate bonds	16	**2,000**	2,000
Deferred income tax liabilities	6	**19**	20
Deferred revenue		**1,371**	1,412
Other obligations		**265**	331
		4,157	4,299
Current liabilities			
Accounts payable and accrued liabilities	17	**98,433**	108,486
Taxes payable		**3,658**	1,820
Amounts due to ultimate holding company	32.1	**1,755**	567
Amounts due to related parties	32.1	**3,998**	4,767
Amounts due to domestic carriers	32.2	**1,483**	1,163
Commercial papers	18	**38,000**	38,000
Short-term bank loans	19	**63,014**	69,175
Convertible bonds	15	**11,086**	11,215
Current portion of long-term bank loans	13	**848**	850
Current portion of promissory notes	14	**12,000**	15,000
Current portion of corporate bonds	16	**5,000**	5,000
Dividend payable	29	**653**	561
Current portion of deferred revenue		**585**	729
Current portion of other obligations		**2,634**	2,642
Advances from customers		**45,809**	42,345
		288,956	302,320
Total liabilities		**293,113**	306,619
Total equity and liabilities		**505,215**	516,124
Net current liabilities		**(242,313)**	(254,146)
Total assets less current liabilities		**216,259**	213,804

The notes on pages 13 to 41 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 2013
(All amounts in RMB millions, except per share data)

		Six months ended 30 June	
	Note	**2013**	2012
Revenue	20	**144,307**	121,690
Interconnection charges		**(9,917)**	(9,151)
Depreciation and amortisation		**(33,906)**	(30,172)
Network, operation and support expenses	21	**(15,993)**	(15,642)
Employee benefit expenses	22	**(14,934)**	(13,740)
Costs of telecommunications products sold	23	**(31,813)**	(22,955)
Other operating expenses	24	**(29,473)**	(24,163)
Finance costs	25	**(1,475)**	(2,047)
Interest income		**81**	121
Other income – net	26	**215**	624
Profit before income tax		**7,092**	4,565
Income tax expenses	6	**(1,775)**	(1,135)
Profit for the period		**5,317**	3,430
Profit attributable to:			
Equity shareholders of the Company		**5,317**	3,430
Earnings per share for profit attributable to equity shareholders of the Company during the period:			
Basic earnings per share (RMB)	30	**0.23**	0.15
Diluted earnings per share (RMB)	30	**0.22**	0.14

The notes on pages 13 to 41 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 2013
(All amounts In RMB millions)

	Six months ended 30 June	
	2013	2012
Profit for the period	**5,317**	3,430
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets through other comprehensive income	**(370)**	(1,741)
Tax effect on changes in fair value of financial assets through other comprehensive income	**90**	435
Changes in fair value of financial assets through other comprehensive income, net of tax	**(280)**	(1,306)
Item that may be reclassified subsequently to statement of income:		
Currency translation differences	**(14)**	–
Other comprehensive income for the period, net of tax	**(294)**	(1,306)
Total comprehensive income for the period	**5,023**	2,124
Total comprehensive income attributable to:		
Equity shareholders of the Company	**5,023**	2,124

The notes on pages 13 to 41 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 2013
(All amounts in RMB millions)

	Attributable to equity shareholders of the Company									
	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 2012	2,311	173,472	79	637	(3,307)	25,111	572	(43,108)	50,131	205,898
Total comprehensive 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
Balance at 1 January 2013	**2,311**	**173,473**	**79**	**651**	**(4,453)**	**25,752**	**572**	**(43,110)**	**54,230**	**209,505**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(280)**	**–**	**–**	**(14)**	**5,317**	**5,023**
Equity-settled share option schemes:										
– Value of employee services	**–**	**–**	**–**	**50**	**–**	**–**	**–**	**–**	**–**	**50**
– Issuance of shares upon exercise of options	**6**	**570**	**–**	**(216)**	**–**	**–**	**–**	**–**	**–**	**360**
– Transfer between reserves upon lapsing of options	**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**3**	**–**
Dividends relating to 2012 (Note 29)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,836)**	**(2,836)**
Balance at 30 June 2013	**2,317**	**174,043**	**79**	**482**	**(4,733)**	**25,752**	**572**	**(43,124)**	**56,714**	**212,102**

The notes on pages 13 to 41 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 2013
(All amounts in RMB millions)

	Six months ended 30 June	
	2013	2012
Net cash inflow from operating activities	**41,273**	35,535
Net cash outflow from investing activities	**(36,341)**	(35,090)
Net cash (outflow)/inflow from financing activities	**(9,737)**	3,074
Net (decrease)/increase in cash and cash equivalents	**(4,805)**	3,519
Cash and cash equivalents, beginning of period	**18,250**	15,106
Effect of changes in foreign exchange rate	**(22)**	–
Cash and cash equivalents, end of period	**13,423**	18,625
Analysis of the balances of cash and cash equivalents:		
Cash balances	**6**	6
Bank balances	**13,417**	18,619
	13,423	18,625

The notes on pages 13 to 41 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 activity of the Company is 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"). 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.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and 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 financial information for the year ended 31 December 2012 is extracted from the audited financial statements as set out in the Company's 2012 Annual Report.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has not been audited, but has been reviewed by the Company's Audit Committee. It has also been reviewed by the Company's international auditor 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 HKICPA.

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 2012. 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 2012 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2013.

2. BASIS OF PREPARATION (CONTINUED)

(a) Acquisition of Unicom New Horizon Telecommunications Company Limited

On 21 November 2012, China United Network Communications Corporation Limited ("CUCL", a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Unicom Group, pursuant to which CUCL agreed to acquire the entire equity interest in Unicom New Horizon Telecommunications Company Limited ("Unicom New Horizon") from Unicom Group for a total cash consideration of approximately RMB12,166 million. The principal activity of Unicom New Horizon is to lease its fixed-line telecommunications networks of the 21 provinces in Southern China ("Telecommunications Networks in Southern China") to CUCL. The acquisition was completed on 26 December 2012.

In accordance with International Financial Reporting Standard ("IFRS")/Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised), a business generally consists of inputs, processes applied to those inputs and outputs. The business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing an economic return. Unicom New Horizon did not meet the definition of a business because it only comprised the telecommunications network assets, cash, and related assets and liabilities. It did not have other inputs and processes such as license, subscriber base, management team and operating workforce etc to operate the fixed-line telecommunications business. Instead of operating the fixed-line telecommunications business, Unicom New Horizon could be able to generate economic returns by entering into lease arrangements for the telecommunications network assets. However, new leases are not readily available in the market.

Accordingly, the Group accounted for the acquisition of Unicom New Horizon as an asset purchase transaction in accordance with IAS/HKAS 16, "Property, plant and equipment" on the date of purchase.

(b) Going Concern Assumption

As at 30 June 2013, current liabilities of the Group exceeded current assets by approximately RMB242.3 billion (31 December 2012: approximately RMB254.1 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 RMB197.3 billion of revolving banking facilities and registered quota of commercial papers, of which approximately RMB75.5 billion was unutilised as at 30 June 2013; 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 ("Board") 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 2013 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 2012.

The following new and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013 and are applicable to the Group:

IAS/HKAS 1 (amendment), "Financial statements presentation"

The amendments require entities to present the items of other comprehensive income that would be reclassified to statement of income in the future if certain conditions are met separately from those that would never be reclassified to statement of income. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS/HKFRS 10, "Consolidated financial statements"

IFRS/HKFRS 10 replaces the requirements in IAS/HKAS 27, "Consolidated and separate financial statements" relating to the preparation of consolidated financial statements and Standing Interpretations Committee/Hong Kong-Standing Interpretations Committee 12, "Consolidation – Special purpose entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of IFRS/HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS/HKFRS 12, "Disclosure of interests in other entities"

IFRS/HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS/HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in the interim financial report as a result of adopting IFRS/HKFRS 12.

IFRS/HKFRS 13, "Fair value measurements"

IFRS/HKFRS 13 replaces existing guidance in individual IFRSs/HKFRSs with a single source of fair value measurement guidance. IFRS/HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial report. The Group has provided those disclosures in explanatory notes. The adoption of IFRS/HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

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 2013 and have not been early adopted by the Group except IFRS/HKFRS 9 "Financial instruments". 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.

The CODM make resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. 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 2013 and 2012 are as follows:

	Six months ended 30 June 2013					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress ("CIP")	Total
Cost:						
Beginning of period	60,774	770,422	45,236	3,296	61,915	941,643
Reclassification	–	27,819	(27,819)	–	–	–
Additions	100	136	42	246	20,392	20,916
Transfer from CIP	1,479	23,541	323	364	(25,707)	–
Disposals	(169)	(3,906)	(151)	(120)	–	(4,346)
End of period	62,184	818,012	17,631	3,786	56,600	958,213
Accumulated depreciation and impairment:						
Beginning of period	(21,318)	(451,596)	(36,063)	(1,653)	(16)	(510,646)
Reclassification	–	(24,651)	24,651	–	–	–
Charge for the period	(1,468)	(29,884)	(745)	(362)	16	(32,443)
Disposals	69	3,408	147	115	–	3,739
Impairment transfer out upon disposal	–	158	–	–	–	158
End of period	(22,717)	(502,565)	(12,010)	(1,900)	–	(539,192)
Net book value:						
End of period	39,467	315,447	5,621	1,886	56,600	419,021
Beginning of period	39,456	318,826	9,173	1,643	61,899	430,997

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Six months ended 30 June 2012					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	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 upon disposal	–	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

For the six months ended 30 June 2013, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB44 million (for the six months ended 30 June 2012: gain of approximately RMB58 million).

During the period, as a result of a review on the assets categorisation, certain equipment was reclassified from “Office furniture, fixtures, motor vehicles and others” to “Telecommunications equipment”. This reclassification does not cause any changes in the estimated useful lives of those assets.

(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 2012: 16.5%) on the estimated assessable profits for the six months ended 30 June 2013. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2013 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2012: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2012: 15%).

	Six months ended 30 June	
	2013	2012
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	**15**	10
– Outside Hong Kong	**3,319**	2,515
	3,334	2,525
Deferred taxation	**(1,559)**	(1,390)
Income tax expenses	**1,775**	1,135

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

	Six months ended 30 June	
	2013	2012
Applicable PRC statutory tax rate	**25.0%**	25.0%
Non-deductible expenses	**1.3%**	1.5%
Non-taxable income	**(0.1%)**	–
Impact of different tax rate	**(0.3%)**	(0.6%)
Others	**(0.9%)**	(1.0%)
Effective tax rate	**25.0%**	24.9%

(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	
	2013	2012
Net deferred tax assets after offsetting:		
Beginning of period	**6,534**	5,091
Deferred tax credited to the statement of income	**1,558**	1,388
Deferred tax credited to other comprehensive income	**90**	435
End of period	**8,182**	6,914
Net deferred tax liabilities after offsetting:		
Beginning of period	**(20)**	(17)
Deferred tax credited to the statement of income	**1**	2
End of period	**(19)**	(15)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2013	31 December 2012
Equity securities issued by corporates	**5,197**	5,567
Analysed by place of listing:		
Listed in the PRC	**104**	125
Listed outside the PRC	**5,093**	5,442
	5,197	5,567

For the six months ended 30 June 2013, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB370 million (for the six months ended 30 June 2012: decrease of approximately RMB1,741 million). The decrease, net of tax impact, of approximately RMB280 million (for the six months ended 30 June 2012: decrease, net of tax impact, of approximately RMB1,306 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

8. OTHER ASSETS

	30 June 2013	31 December 2012
Purchased software	**6,779**	6,364
Prepaid rental for premises, leased lines and electricity cables	**6,033**	6,102
Installation costs	**721**	799
Direct incremental costs for activating mobile subscribers	**106**	212
Others	**2,175**	1,003
	15,814	14,480

9. INVENTORIES AND CONSUMABLES

	30 June 2013	31 December 2012
Handsets and other customer end products	**4,047**	4,187
Telephone cards	**365**	359
Consumables	**599**	1,174
Others	**32**	83
	5,043	5,803

10. ACCOUNTS RECEIVABLE

	30 June 2013	31 December 2012
Accounts receivable	**22,541**	17,819
Less: Provision for doubtful debts	**(5,904)**	(4,066)
	16,637	13,753

The aging analysis of accounts receivable is as follows:

	30 June 2013	31 December 2012
Current, within one month	**10,833**	10,221
More than one month to three months	**2,123**	1,149
More than three months to one year	**5,900**	3,859
More than one year	**3,685**	2,590
	22,541	17,819

10. ACCOUNTS RECEIVABLE (CONTINUED)

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 2013	31 December 2012
Receivable for the sales of mobile handsets	**4,659**	3,566
Prepaid rental	**1,957**	1,900
Deposits and prepayments	**2,737**	2,721
Prepaid income taxes	**–**	42
Advances to employees	**491**	284
Others	**1,054**	1,067
	10,898	9,580

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

	30 June 2013	31 December 2012
Within one year	**10,241**	8,901
More than one year	**657**	679
	10,898	9,580

12. SHARE CAPITAL

	30 June 2013 HKD millions	31 December 2012 HKD millions
Authorised:		
30,000,000,000 ordinary shares of par value HKD0.10 each	**3,000**	3,000

12. SHARE CAPITAL (CONTINUED)

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 2012 and 30 June 2012	23,565	2,356	2,311	173,472	175,783
At 1 January 2013	**23,565**	**2,356**	**2,311**	**173,473**	**175,784**
Issuance of shares upon exercise of options (Note 28)	**75**	**8**	**6**	**570**	**576**
At 30 June 2013	**23,640**	**2,364**	**2,317**	**174,043**	**176,360**

13. LONG-TERM BANK LOANS

	Interest rates and final maturity	30 June 2013	31 December 2012
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 2012: Nil to 5.00%) per annum with maturity through 2039 (31 December 2012: maturity through 2039)	**368**	386
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2012: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2012: maturity through 2034)	**182**	200
Sub-total		**1,350**	1,386
Less: Current portion		**(848)**	(850)
		502	536

As at 30 June 2013, long-term bank loans of approximately RMB102 million (31 December 2012: approximately RMB107 million) were guaranteed by third parties.

(All amounts in RMB millions unless otherwise stated)

13. LONG-TERM BANK LOANS (CONTINUED)

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

	30 June 2013	31 December 2012
Balances due:		
– not later than one year	**848**	850
– later than one year and not later than two years	**47**	48
– later than two years and not later than five years	**140**	144
– later than five years	**315**	344
	1,350	1,386
Less: Portion classified as current liabilities	**(848)**	(850)
	502	536

The fair values of the Group's non-current portion of long-term bank loans at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013	31 December 2012
Long-term bank loans	**401**	438

The fair value is based on cash flows discounted using rates based on the market rates 3.62% and 3.63% (31 December 2012: 3.52% and 3.67%) per annum.

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. The amount is fully repaid in April 2013.

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. This promissory note is therefore classified as current liability as at 30 June 2013.

The fair value of the Group's promissory notes at 30 June 2013 amounted to approximately RMB12,150 million (31 December 2012: approximately RMB14,914 million). The fair value is computed based on the expected cash flows of principal and interests payment discounted at market rate of 5.22% (31 December 2012: 4.36% and 4.37%) 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. Adjustments have been made to the conversion price from HKD15.85 to HKD15.36 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. The convertible bonds are therefore classified as current liabilities as at 30 June 2013. 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 2013 and 2012, 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 equity shareholders of the Company.

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

	Six months ended 30 June	
	2013	2012
Movement of liability component:		
Beginning of period	**11,215**	11,118
Less: interest paid	**(43)**	(43)
Add: effect of exchange (gain)/loss on liability component	**(191)**	42
Add: imputed finance cost	**105**	105
End of period	**11,086**	11,222

The liability component of the convertible bonds at 30 June 2013 amounted to approximately RMB11,086 million (equivalent to USD1,794 million) (31 December 2012: approximately RMB11,215 million (equivalent to USD1,784 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. The carrying values of the liability component of the convertible bonds approximate their fair values as at the balance sheet date.

(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. These corporate bonds are therefore classified as current liability as at 30 June 2013.

The fair values of the Group's corporate bonds at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013	31 December 2012
Corporate bonds	**7,106**	7,025

The fair value is based on cash flows discounted using rates based on the market rates 4.60% and 5.27% (31 December 2012: 4.40% and 4.89%) per annum.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2013	31 December 2012
Payables to contractors and equipment suppliers	**70,105**	81,701
Payables to telecommunications products suppliers	**2,122**	5,587
Customer/contractor deposits	**4,043**	3,972
Repair and maintenance expense payables	**3,166**	2,455
Salary and welfare payables	**3,111**	1,581
Interest payables	**1,757**	846
Amounts due to service providers/content providers	**1,541**	1,396
Accrued expenses	**9,931**	8,035
Others	**2,657**	2,913
	98,433	108,486

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

	30 June 2013	31 December 2012
Less than six months	**72,800**	96,044
Six months to one year	**14,347**	7,293
More than one year	**11,286**	5,149
	98,433	108,486

(All amounts in RMB millions unless otherwise stated)

18. COMMERCIAL PAPERS

On 12 July 2012, CUCL issued tranche one of 2012 commercial papers 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.

On 24 October 2012, CUCL issued tranche two of 2012 commercial papers in an amount of RMB15 billion, with a maturity date of 365 days from the date of issue and carries interests at 4.20% per annum.

On 25 October 2012, CUCL issued tranche three of 2012 commercial papers in an amount of RMB8 billion, with a maturity date of 365 days from the date of issue and carries interests at 4.20% per annum.

The carrying values of commercial papers approximate their fair values as at the balance sheet date.

19. SHORT-TERM BANK LOANS

	Interest rates and final maturity	30 June 2013	31 December 2012
RMB denominated bank loans	Fixed interest rates ranging from 3.62% to 5.04% (31 December 2012: 3.62% to 5.27%) per annum with maturity through 2014 (31 December 2012: maturity through 2013)	**31,110**	39,780
HKD denominated bank loans	Floating interest rates of HKD HIBOR plus interest margin from 0.85% to 1.60% (31 December 2012: 1.00% to 2.15%) per annum with maturity through 2014 (31 December 2012: maturity through 2013)	**31,904**	29,395
		63,014	69,175

(All amounts in RMB millions unless otherwise stated)

20. REVENUE

The tariffs for the services provided by the Group are subject to regulations issued 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 RMB4,300 million for the six months ended 30 June 2013 (for the six months ended 30 June 2012: approximately RMB3,603 million).

The major components of revenue are as follows:

	Six months ended 30 June	
	2013	2012
Mobile business		
– Usage and monthly fees	**33,940**	29,934
– Value-added services revenue	**31,900**	24,258
– Interconnection fees	**6,712**	6,014
– Other service revenue	**301**	275
Total service revenue from mobile business	**72,853**	60,481
Fixed-line business		
– Usage and monthly fees	**9,085**	10,360
– Broadband, data and other Internet-related services revenue	**23,762**	21,348
– Interconnection fees	**2,048**	2,191
– Value-added services revenue	**2,054**	2,205
– Leased line income	**4,150**	3,838
– Information communication technology services revenue	**1,636**	1,016
– Other service revenue	**518**	546
Total service revenue from fixed-line business	**43,253**	41,504
Other service revenue	**369**	408
Total service revenue	**116,475**	102,393
Sales of telecommunications products	**27,832**	19,297
	144,307	121,690

(All amounts in RMB millions unless otherwise stated)

21. NETWORK, OPERATION AND SUPPORT EXPENSES

	Six months ended 30 June	
	2013	2012
Repairs and maintenance	**5,429**	4,828
Power and water charges	**5,786**	5,279
Operating lease charges for network, premises, equipment and facilities	**4,175**	4,984
Others	**603**	551
	15,993	15,642

22. EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2013	2012
Salaries and wages	**11,576**	10,677
Contributions to defined contribution pension schemes	**1,629**	1,516
Contributions to medical insurance	**660**	618
Contributions to housing fund	**922**	820
Other housing benefits	**97**	95
Share-based compensation	**50**	14
	14,934	13,740

23. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2013	2012
Handsets	**31,289**	22,098
Wireless data cards	**241**	340
Telephone cards	**259**	431
Others	**24**	86
	31,813	22,955

(All amounts in RMB millions unless otherwise stated)

24. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2013	2012
Provision for doubtful debts	**1,926**	1,584
Cost in relation to information communications technology services	**1,439**	870
Commission expenses	**13,438**	10,154
Advertising and promotion expenses	**2,431**	2,334
Amortised customer installation cost	**1,597**	1,399
Customer acquisition and retention cost	**2,919**	2,490
Property management fee	**1,074**	961
Office and administrative expenses	**1,320**	1,550
Transportation expense	**963**	975
Miscellaneous taxes and fees	**404**	379
Others	**1,962**	1,467
	29,473	24,163

25. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
Finance costs:		
– Interest on bank loans repayable within 5 years	**1,168**	834
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	**1,136**	1,389
– Interest on convertible bonds repayable within 5 years	**105**	105
– Interest on related party loans repayable within 5 years	**5**	14
– Interest on bank loans repayable over 5 years	**2**	3
– Less: Amounts capitalised in CIP	**(438)**	(660)
Total interest expense	**1,978**	1,685
– Exchange (gain)/loss, net	**(725)**	122
– Others	**222**	240
	1,475	2,047

(All amounts in RMB millions unless otherwise stated)

26. OTHER INCOME – NET

	Six months ended 30 June	
	2013	2012
Dividend income from financial assets at fair value through other comprehensive income	–	412
Others	**215**	212
	215	624

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 purchased ordinary shares of the Company for a consideration of USD500 million through acquisition from third parties; and (b) the Company acquired 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.

On 14 May 2012, Telefónica declared a dividend. The Company chose to implement it by means of a scrip dividend and received 1,646,269 ordinary shares of approximately RMB146 million.

As at 30 June 2013, the related financial assets at fair value through other comprehensive income amounted to approximately RMB5,093 million (31 December 2012: approximately RMB5,442 million). For the six months ended 30 June 2013, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB349 million (for the six months ended 30 June 2012: decrease of approximately RMB1,743 million). The decrease, net of tax impact, of approximately RMB261 million (for the six months ended 30 June 2012: decrease, net of tax impact, of approximately RMB1,307 million) were 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			
	2013		2012	
	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**	**391,331,158**	6.49	391,481,158
Granted	**–**	**–**	–	–
Lapsed	**4.30**	**(110,000)**	–	–
Exercised	**6.01**	**(75,055,146)**	–	–
Balance, end of period	**6.61**	**316,166,012**	6.49	391,481,158

Exercise of share options during the six months ended 30 June 2013 resulted in 75,055,146 shares being issued (six months ended 30 June 2012: Nil), with exercise proceeds of approximately RMB360 million (six months ended 30 June 2012: Nil).

Details of share options exercised during the six months ended 30 June 2013 are as follows:

Grant date	**Exercise price HKD**	**Weighted average closing price per share at respective dates immediately before dates of exercise of options HKD**	**Proceeds received HKD**	**Number of shares involved**
21 May 2003	**4.30**	**10.80**	**38,037,800**	**8,846,000**
20 July 2004	**5.92**	**10.96**	**70,175,680**	**11,854,000**
15 February 2006	**6.35**	**11.02**	**169,811,700**	**26,742,000**
15 October 2008	**5.57**	**11.05**	**113,179,336**	**20,319,450**
15 October 2008	**8.26**	**11.07**	**60,245,929**	**7,293,696**
			451,450,445	**75,055,146**

As at 30 June 2013, all of the 316,166,012 outstanding share options (31 December 2012: 391,331,158), were exercisable, and the weighted average exercise price was HKD6.61 (31 December 2012: 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 2013	Number of share options outstanding as at 31 December 2012
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
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2014	HKD5.92	**29,170,000**	41,024,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2014	HKD6.20	**654,000**	654,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2015	HKD6.35	**124,664,000**	151,406,000
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 2014	HKD5.57	**80,042,240**	100,361,690
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2014	HKD8.26	**81,635,772**	88,929,468
				316,166,012	391,331,158

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 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" is in force until middle of 2013, the Board further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 30 June 2013, approximately 13,392,000 share options held by Transferred Personnel remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, 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 during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme. The 2012 extension and the 2013 extension did not have significant impact on the unaudited condensed consolidated interim statement of income for the six months ended 30 June 2012 and 2013 respectively.

Note ii: The options outstanding as at 30 June 2013 had a weighted average remaining contractual life of 1.46 years (31 December 2012: 0.94 years).

29. DIVIDENDS

At the annual general meeting held on 21 May 2013, the shareholders of the Company approved the payment of a final dividend of RMB0.12 per ordinary share for the year ended 31 December 2012, totaling approximately RMB2,836 million (for the year ended 31 December 2011: final dividend of RMB0.10 per ordinary share, totaling approximately RMB2,356 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2013. Among the dividend payable of approximately RMB653 million as at 30 June 2013, dividend of approximately RMB644 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 2013, 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 2013 and 2012 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2013 and 2012 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. All dilutive potential ordinary shares for the six months ended 30 June 2013 and 2012 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 following table sets forth the computation of basic and diluted earnings per share:

	Six months ended 30 June	
	2013	2012
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic earnings per share	**5,317**	3,430
Imputed finance cost on the liability component of convertible bonds	**105**	105
Profit attributable to equity shareholders of the Company used in computing diluted earnings per share	**5,422**	3,535
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	**23,587**	23,565
Dilutive equivalent shares arising from share options	**154**	198
Dilutive equivalent shares arising from convertible bonds	**918**	902
Shares used in computing diluted earnings per share	**24,659**	24,665
Basic earnings per share (in RMB)	**0.23**	0.15
Diluted earnings per share (in RMB)	**0.22**	0.14

(All amounts in RMB millions unless otherwise stated)

31. FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Unobservable inputs for the asset or liability (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2013:

	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities	**5,197**	**–**	**–**	**5,197**

The following table presents the Group's assets that are measured at fair value at 31 December 2012:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities	5,567	–	–	5,567

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprise primarily equity securities of Telefónica which are classified as financial assets at fair value through other comprehensive income.

During the six months ended 30 June 2013, there was no transfer between Level 1 and Level 2, or transfer into or out of Level 3 (year ended 31 December 2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(All amounts in RMB millions unless otherwise stated)

32. 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 and state-owned banks, 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 network depends, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. Management believes that meaningful information relating to related party transactions has been disclosed below.

32.1 Connected 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	
	2013	2012
Transactions with Unicom Group and its subsidiaries:		
Leasing fee of Telecommunications Networks in Southern China	**–**	1,300
Charges for value-added telecommunications services	**20**	16
Rental charges for property leasing	**460**	467
Charges for lease of telecommunications resources	**164**	147
Charges for engineering design and construction services	**664**	741
Charges for shared services	**73**	86
Charges for equipment procurement services	**81**	127
Charges for ancillary telecommunications services	**798**	621
Charges for comprehensive support services	**131**	138
Income from comprehensive support services	**37**	54

32. RELATED PARTY TRANSACTIONS (CONTINUED)

32.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

(a) Recurring transactions (Continued)

On 29 October 2010, CUCL entered into the new agreements, "2011–2012 Network Lease Agreement" with Unicom New Horizon, and "2011 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions as disclosed in the table (a) above. Major changes of the key 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 was extended to another two years effective from 1 January 2011 to 31 December 2012 and was 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 would 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 year ended 31 December 2012 was RMB2.6 billion. The 2011–2012 Network Lease Agreement expired on 31 December 2012.

- 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 are calculated on the same basis as under previous agreements.

(b) Non-recurring transaction

On 26 December 2012, CUCL completed the acquisition of Unicom New Horizon from Unicom Group (Note 2 (a)). Following the completion of the acquisition, the transaction between Unicom New Horizon and the Group has no longer been disclosed as a related party transaction in the consolidated financial statements as they have been eliminated on consolidation.

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

32.1 Connected transactions with Unicom Group and its subsidiaries (Continued)

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

Amount due to Unicom Group as at 30 June 2013 included the unsecured entrusted loans from Unicom Group of approximately RMB1,344 million with interest rate at 5.4% per annum.

In addition, amounts due to Unicom Group as at 30 June 2013 and 31 December 2012 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million.

Apart from the entrusted loan as aforementioned, amounts due from and to Unicom Group and its subsidiaries are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Unicom Group and its subsidiaries as described in (a) above.

32.2 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	
	2013	2012
Interconnection revenue	**7,631**	7,066
Interconnection charges	**8,958**	8,264
Leased line revenue	**80**	139
Leased line charges	**147**	15
Engineering design and technical service revenue	**99**	112

32. RELATED PARTY TRANSACTIONS (CONTINUED)

32.2 Domestic carriers (Continued)

(b) Amounts due from and to domestic carriers

	30 June 2013	31 December 2012
Amounts due from domestic carriers		
– Receivables for interconnection revenue, leased line revenue and engineering design and technical service revenue	**579**	755
– Less: Provision for doubtful debts	**(13)**	(17)
	566	738
Amounts due to domestic carriers		
– Payables for interconnection charges and leased line charges	**1,483**	1,163

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

32.3 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2013 and 2012 are set out below:

	Six months ended 30 June	
	2013 (RMB'000)	2012 (RMB'000)
Non-executive directors:		
Fees	**1,105**	967
Other benefits (a)	**–**	–
	1,105	967
Executive directors:		
Fees	**–**	–
Other emoluments		
– Salaries and allowances	**550**	550
– Bonuses paid and payable	**1,250**	1,250
– Other benefits (a)	**167**	5
– Contributions to pension schemes	**151**	64
	2,118	1,869
	3,223	2,836

(a) Other benefits represent the share-based compensation cost recognised during the six months ended 30 June 2013 and 2012 for the share options (Note 28) granted to the directors of the Company under the Company's share option schemes.

(All amounts in RMB millions unless otherwise stated)

33. CONTINGENCIES AND COMMITMENTS

33.1 Capital commitments

As at 30 June 2013 and 31 December 2012, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2013			31 December 2012
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**326**	**10,900**	**11,226**	8,225
Authorised but not contracted for	**138**	**676**	**814**	1,470
	464	**11,576**	**12,040**	9,695

33.2 Operating lease commitments

As at 30 June 2013 and 31 December 2012, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	30 June 2013			31 December 2012
	Land and buildings	**Equipment**	**Total**	Total
Leases expiring:				
– not later than one year	**1,579**	**415**	**1,994**	2,092
– later than one year and not later than five years	**3,373**	**641**	**4,014**	5,184
– later than five years	**1,118**	**98**	**1,216**	745
	6,070	**1,154**	**7,224**	8,021

33. CONTINGENCIES AND COMMITMENTS (CONTINUED)

33.3 Contingent liabilities

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 2013 and 31 December 2012.

34. EVENTS AFTER THE REPORTING PERIOD

On 10 July 2013, CUCL issued tranche one of 2013 super and short-term commercial paper in an amount of RMB15 billion, with a maturity date of 60 days from the date of issue and carries interests at 4.2% per annum.

35. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 8 August 2013.

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 7 to 41 which comprises the condensed consolidated interim balance sheet of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2013 and the related condensed consolidated interim statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof, and to be in compliance with either International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 "Interim Financial Reporting" 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 are responsible for the preparation and presentation of the interim financial information in accordance with both International Accounting Standard 34 and Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information 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 the interim financial information consists of making enquiries, 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 as at 30 June 2013 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".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

8 August 2013

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 2013, 154,488,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.65% 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 2013. 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 2013 are governed by the terms of the Share Option Scheme.

During the six months ended 30 June 2013, the following share options granted under the Share Option Scheme were exercised:

Number of Options	Exercise Price (HKD)
8,846,000	4.30
11,854,000	5.92
26,742,000	6.35

During the six months ended 30 June 2013, 110,000 share options granted under the Share Option Scheme at the exercise price of HKD4.30 for each option were lapsed.

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 10th anniversary of 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 by them as at the Scheme Record Time (the "Special Purpose 2004 Unicom Options") are effective from 15 October 2008 until 16 November 2014 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2014 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 2014 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised by 5 December 2014 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 2013, 161,678,012 share options had been granted and remained valid under the Special Purpose Share Option Scheme, representing approximately 0.68% 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 2013. All of the share options granted and outstanding as at 30 June 2013 are governed by the terms of the Special Purpose Share Option Scheme.

During the six months ended 30 June 2013, the following share options granted under the Special Purpose Share Option Scheme were exercised:

Number of Options	Exercise Price (HKD)
20,319,450	5.57
7,293,696	8.26

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 2013[1]	Movement During the Period			No. of Options Outstanding as at 30 June 2013[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	–	–	–	–	–	–	–	–
Law Fan Chiu Fun Fanny	–	–	–	–	–	–	–	–
Employees		21 May 2003	4.30	8,956,000	–	(8,846,000)	(110,000)	–
		20 July 2004	5.92	40,900,000	–	(11,854,000)	–	29,046,000
		21 December 2004	6.20	128,000	–	–	–	128,000
		15 February 2006	6.35	150,160,000	–	(26,742,000)	–	123,418,000
		15 October 2008	5.57	99,637,850	–	(20,319,450)	–	79,318,400
		15 October 2008	8.26	88,929,468	–	(7,293,696)	–	81,635,772
								313,546,172[2]
Total				**391,331,158**				**316,166,012**

Notes:

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

2. The share options outstanding as at 30 June 2013 include approximately 13,392,000 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 2014 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2014 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2014 (in respect of the remaining 30% of the options granted)
21 December 2004	6.20	21 December 2005 to 20 December 2014 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2014 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2014 (in respect of the remaining 30% of the options granted)
15 February 2006	6.35	15 February 2008 to 14 February 2015 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2015 (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 2014 (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 2014 (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 2014 (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 2014 (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 2014 (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 2010 to 5 December 2014 (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" was in force until middle of 2013, the Board further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 30 June 2013, approximately 13,392,000 share options held by Transferred Personnel (as discussed in Note 2 above) remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, 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 during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

4. Details of share options exercised during the six months ended 30 June 2013 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective dates immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares
21 May 2003	4.30	10.80	38,037,800	8,846,000
20 July 2004	5.92	10.96	70,175,680	11,854,000
15 February 2006	6.35	11.02	169,811,700	26,742,000
15 October 2008	5.57	11.05	113,179,336	20,319,450
15 October 2008	8.26	11.07	60,245,929	7,293,696

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

As at 30 June 2013, 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 2013 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 2013 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 2013, 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 2013:

		Ordinary Shares Held		Percentage of
		Directly	**Indirectly**	**Issued Shares**
(i)	China United Network Communications Group Company Limited ("Unicom Group")[1,2]	–	18,032,853,047	76.28%
(ii)	China United Network Communications Limited ("Unicom A Share Company")[1]	–	9,725,000,020	41.14%
(iii)	China Unicom (BVI) Limited ("Unicom BVI")[1]	9,725,000,020	–	41.14%
(iv)	China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI")[2,3]	8,082,130,236	225,722,791	35.14%

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 34.19% of the issued shares) of the Company directly. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.95% of the issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 30 June 2013, 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.

INTERIM DIVIDEND

It was resolved by the Board that no interim dividend for the six months ended 30 June 2013 will be paid.

CHARGE ON ASSETS

As at 30 June 2013, no property, plant and equipment was pledged to banks as loan security (31 December 2012: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2013, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

COMPOSITION OF THE BOARD

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
Law Fan Chiu Fun Fanny

CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of our Directors since the publication of the Company's 2012 annual report:

- Mr. John Lawson Thornton retired as a Director of HSBC Holdings plc.
- Mr. Cheung Wing Lam Linus retired as Chairman of the University of Hong Kong School of Professional and Continuing Education.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny, 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 2013.

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; formulating, reviewing and implementing the policy of diversity of Board members; 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 2013 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 should 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 of the shareholders 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.

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 2013, and all of the Directors have confirmed such compliance.

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

Compliance with the requirements under Section 404 of the SOX Act has been an area of emphasis for the Company. The relevant sections of the SOX 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 SOX 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 2012. The management's assessment report was included in the Company's annual report on Form 20-F for the year ended 31 December 2012 ("Form 20-F"), as filed with the United States Securities and Exchange Commission on 25 April 2013.

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 SOX 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 included in the 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 2012 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2013, the Group had approximately 218,190 employees, 190 employees and 70 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 66,950 temporary staff in Mainland China. For the six months ended 30 June 2013, employee benefit expenses were approximately RMB14.934 billion (for the six months ended 30 June 2012: RMB13.740 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 the Company, are intended to identify certain of these forward-looking statements. The Company does not intend to update any of these forward-looking statements and are under no obligation to do so.

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;

- the results 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 the Company 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, 8 August 2013