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Contents

- 2** Chairman's Statement
- 7** Financial and Business Overview
- 11** Unaudited Condensed Consolidated Interim Financial Information
- 53** Report on Review of Interim Financial Information
- 54** Other Information





Chang Xiaobing
Chairman & CEO

Chairman's Statement

Dear Shareholders,

In the first half of 2011, the Company experienced a rapid growth in revenue, continuously optimized its structure, enhanced its network capacity, and gradually improved its profitability. Overall, the Company demonstrated a rapid and healthy development trend.

Financial performance¹

In the first half of 2011, the growth of the Company's revenue accelerated. Revenue of the Company (excluding deferred fixed-line upfront connection fee, same hereafter unless otherwise specified) totaled RMB101.385 billion, an increase of 22.9% over the same period last year. Service revenue was RMB90.350 billion, an increase of 13.0% over the same period last year. EBITDA was RMB32.017 billion, an increase of 4.2% over the same period last year. Profit for the period was RMB2.637 billion, a decline of 5.5%. Profitability of the Company was gradually bottoming out based on quarter-on-quarter comparison. Basic earnings per share was RMB0.113 (including deferred fixed-line upfront connection fee).

In the first half of 2011, operating cash flows of the Company was RMB34.352 billion, an increase of 10.5% over the same period last year. Capital expenditure was RMB25.968 billion, a decline of 22.1% over the same period last year. As at 30 June 2011, debt-to-capitalisation ratio was 31.7% and net debt-to-capitalisation ratio was 25.7%. The Company's debt-to-capitalisation structure remained solid.

Business performance¹

In the first half year, driven by the rapid growth of the 3G and fixed-line broadband businesses, the growth of the Company's mobile business further accelerated. The fixed-line business remained stable. The growth of service revenue over the same period exceeded that of the industry average by 2.9 percentage points, with a gradual increase in the market share. While revenue grew rapidly, the revenue structure continued to improve. Service revenue from the mobile business accounted for 54.2% of the overall service revenue, an increase of 5.3 percentage points over the same period last year.

Mobile business

In the first half of 2011, the Company promoted the large-scale development of the 3G business focusing on both quality and quantity, and reinforced the effectiveness of the GSM business. The mobile business showed strong development momentum. As at 30 June 2011, the total number of subscribers of the Company reached 181.61 million, an increase of 15.7% over the same period last year. The penetration rate of 3G subscribers reached 13.2%. Benefiting from the rapid increase in 3G subscriber penetration rate, the overall ARPU of mobile subscribers for the first half year reached RMB46.8, an increase of 9.3% over the same period last year. Incremental revenue from the mobile business increased quarter by quarter. Service revenue for the first half year was RMB48.998 billion, an increase of 25.3% over the same period last year. The percentage of the 3G service revenue of the total revenue was 26.9%.

The large-scale and rapid development of the 3G business:

In the first half of 2011, the Company actively optimized sales and marketing policies in terms of 3G products, subsidies, terminals and channels, and expanded the target subscriber group step by step. The 3G business demonstrated large-scale and rapid growth and the net additions of subscribers were 9.885 million. The total number of 3G subscribers reached 23.945 million. The ARPU of 3G subscribers was RMB117.5, a decrease of 11.7% over the same period last year. Service revenue was RMB13.180 billion, an increase of 234% over the same period last year. The quarterly average period-on-period growth rate reached 31.6%.

The Company continuously developed and deepened channel cooperation. Following the strategic partnership with Suning and others, the Company entered into strategic cooperation with national channel cooperation partners such as Guomei and 80 regional chain channels in the first half year, and gradually established a favourable position among mainstream social channels. In addition, the Company continuously strengthened its supporting service capability of social channels in such aspects as products, commission and settlement and established a win-win cooperative model with social channels. This significantly boosted the initiative of channel sales. In the first half year, sales of 3G business through social channels accounted for 51%, an increase of 16 percentage points over the same period last year.

Capitalizing on the industry chain advantage of WCDMA in the smartphones market, the Company further strengthened its co-operations with various WCDMA industry chain parties, actively promoted the innovative operations of terminals. In first half of the year, the Company newly launched over 30 models of strategically customized handsets. The Company also took bold measures in innovation and redefined mobile Internet handsets with experience and price as the core elements. In June, the Company launched the first "Thousand-RMB Wide Screen Smartphone" in mainland China. The handset was well received by the market and became an important driving force for the large-scale development of mid and low-end subscriber base.

With respect to contents and applications, the Company focused on products such as music, video, reading and application stores, established a diversified base of partners, enriched content resources, improved product experience, and continuously nourished subscribers' consumption habit of data service. In the first half year, 3G subscribers' monthly average data volume reached 265.6MB, an increase of 86.0% over the same period last year.

The GSM business maintained steady growth: The Company upheld both development and maintenance, strengthened subscriber retention, actively promoted voice package operations and enhanced the effectiveness of GSM business development. The GSM business maintained steady growth. In the first half year, the net additions of GSM subscribers were 4.299 million and the total number of subscribers reached 157.665 million. The ARPU of subscribers was RMB38.3, a decrease of 3.8% over the same period last year. Service revenue was RMB35.818 billion, an increase of 1.9% over the same period last year.

Fixed-line business

In the first half of 2011, the Company actively promoted the marketing of fixed-line broadband speed enhancement. The net additions of broadband subscribers were 5.098 million and the total number of subscribers reached 52.322 million, an increase of 19.6% over the same period last year. Service revenue of the broadband service was RMB17.172 billion, an increase of 18.7% over the same period last year.

Confronted with severe challenges arising from factors such as mobile substitution, the Company actively promoted the integrated business and voice package marketing and endeavored to mitigate the decline in the local telephone business². In the first half of 2011, the total loss of local telephone subscribers was 1.177 million and the total number of subscribers was 95.458 million, of which, the loss of PHS subscribers was 2.951 million and its total number of subscribers was 10.472 million. The local telephone business² recorded service revenue of RMB17.663 billion, a decline of 15.0% over the same period last year.

Benefiting from the rapid growth of businesses such as fixed-line broadband business, service revenue from the fixed-line business of the Company was RMB40.903 billion for the first half year, an increase of 2.5% over the same period last year.

Integrated business and industry applications

In the first half year, the Company emphasizing on optimizing the marketing organization system and the industry applications research and development support system, both of which are tailored to the needs of corporate customers. Using industry applications as the breakthrough point, the Company expanded the corporate customer market and gradually built up the influence of "WO•Business" in the six major areas, namely banking, securities, insurance, automobile, aerospace and central-government-owned enterprises, with industry application user development beginning to take shape. In the first half year, the Company developed over 3 million subscribers in the five major industry applications, namely mobile OA, government enforcement, automotive information services, monitoring and surveillance and stock trading/wireless internet cards.

For family subscribers, the Company actively marketed the "WO•Family" integrated product with fixed-line broadband as the core service. As at 30 June, the total number of "WO•Family" package subscribers reached 3.7 million and the broadband family subscriber penetration rate reached 8.7%.

Network building

In the first half year, the Company continued to speed up 3G network building, continued to enhance the GSM network, accelerated the broadband network upgrade and speed enhancement and stepped up its efforts in WiFi hotspot deployment to meet growing business development needs.

As at 30 June 2011, the total number of 3G base stations was 203,000, an increase of 32.8% over the same period last year. The HSPA+ network covered 56 key cities nationwide and can provide network services with a downlink rate of 21M for subscribers. The total number of GSM base stations reached 348,000, an increase of 13.7% over the same period last year. The total number of fixed-line broadband access ports reached 74.25 million, an increase of 26.9% over the same period last year.

Outlook

In the second half year, the Company intends to adhere to its development strategy to seize market opportunities, accelerate large-scale development and strive for faster growth in revenue, significant improvement in profitability and further enhancement of overall strength and market position. Major operating measures in the second half year include:

Achieving large-scale development of key businesses.

By fully capitalizing on marketing and incentive policies in respects of terminals, subsidies, key industry applications and channels, the Company intends to accelerate the large-scale development of the 3G business to further increase market share. The Company also plans to transform the GSM marketing model in an active and steady way and maintain the steady development of the GSM business. In addition, the Company expects to promote the continuous and rapid growth of the fixed-line broadband business and step up overall efforts in the marketing of integrated products to maintain the stability of the fixed-line business.

Driving new breakthroughs in key markets. The Company intends to further expand the scope for promoting key industry applications and enhance product advantages and brand influence to drive a large-scale increase in corporate customers. The Company plans to optimize the campus market product system and integrate marketing resources to achieve breakthrough development in the juvenile market for key businesses such as 3G business. The Company also plans to further tap the consumption demand of rural markets and step up efforts in developing broadband, GSM and integrated businesses to increase the penetration rate of the rural subscribers. In addition, the Company plans to leverage on the product and service advantages of its international business to effectively increase the market share in the international business.

Enhancing network and operating support capability.

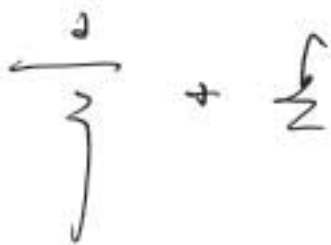
The Company intends to continue to accelerate 3G network building, optimize 2G network coverage and expedite indoor coverage and WLAN establishment to continuously increase network capacity and improve network quality. The Company also plans to continue to promote broadband network upgrade and speed enhancement, expedite optical fibre access network building and accelerate the substitution of copper wires by optical fibre to meet growing business development needs.

Promoting management reform in key areas.

The Company intends to actively promote the reform of the operating model with a focus on grid marketing and self-owned sales outlets. While continuing to optimize the management system and business process, the Company plans to enhance the full cost management of LAN to facilitate the continued enhancement of the utilization efficiency of various resources. Guided by market size and resources utilization efficiency, the Company also plans to reinforce the appraisal and remuneration allocation mechanism to fully inspire the vigor of employees, thereby providing a strong support for the rapid development of the Company's business and the continued enhancement of operational efficiency.

Chairman's Statement

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



Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 24 August 2011

Note:

1. *Except for earnings per share figure, all revenue and profit for the period figures mentioned above excluded deferred fixed-line upfront connection fees of RMB15 million for the first half of 2011 and RMB130 million for the first half of 2010.*
2. *Local telephone business includes local voice service, long-distance service, fixed-line VAS, interconnection settlement services.*

Financial and Business Overview

I. Financial Overview¹

Revenue

In the first half of 2011, total revenue would reach RMB101.385 billion or increase by 22.9% as compared to the same period of last year. Out of which, service revenue would reach RMB90.350 billion or increase by 13.0% as compared to the same period of last year.

Revenue from the mobile business was RMB60.000 billion, of which, service revenue from the mobile business was RMB48.998 billion, up by 25.3% from the same period of last year. Value-added service revenue from the mobile business was RMB17.310 billion and as a percentage of service revenue from the mobile business, there was an increase from 31.3% in first half of 2010 to 35.3% in first half of 2011. Service revenue from GSM business was RMB35.818 billion, up by 1.9% from the same period of last year. Service revenue from 3G business was RMB13.180 billion. As a percentage of service revenue from the mobile business, there was an increase from 10.1% in first half of 2010 to 26.9% in first half of 2011.

Revenue from the fixed-line business would reach RMB40.936 billion, of which, service revenue from the fixed-lined business would reach RMB40.903 billion, up by 2.5% from the same period of last year. Non-voice revenue from the fixed-line business was RMB25.553 billion and as a percentage of service revenue from the fixed-line business, there was an increase from 54.0% in first half of 2010 to 62.5% in first half of 2011. Out of non-voice revenue from the fixed-line business, service revenue from broadband business was RMB17.172 billion, up by 18.7% from the same period of last year. As a percentage of service revenue from the fixed-line business, there was an increase from 36.3% in first half of 2010 to 42.0% in first half of 2011. Service revenue from the local telephone business would reach RMB17.663 billion, down by 15.0% compared with the same period of last year.

Costs and Expenses

In the first half of 2011, total costs and expenses², were RMB97.891 billion, up by 24.2% from the same period of last year.

Due to the expansion of Company's network capacity and increase of network assets, as well as the increase in utilities charges and rental expenses, the Company incurred depreciation and amortisation charge of RMB28.351 billion in the first half of 2011, increased by RMB1.710 billion or 6.4% from the same period of last year. Networks, operations and support expenses were RMB14.034 billion, increased by RMB1.275 billion or 10.0% from the same period of last year.

The Company continued the market promotion of its key businesses such as 3G and broadband service. Selling and marketing expenses were RMB13.596 billion in first half of 2011, increased by RMB2.256 billion or 19.9% from the same period of last year. Cost of telecommunications products sold was RMB14.293 billion. Loss on the sale of telecommunications products was RMB3.258 billion, of which, loss on sale of 3G handsets ("3G handset subsidy cost") was RMB3.057 billion, increased by RMB2.566 billion from the same period of last year.

Earnings

In the first half of 2011, profit before income tax would be RMB3.494 billion, profit for the period would be RMB2.637 billion, down by 5.5% from the same period of last year. Basic earnings per share¹ was RMB0.113. EBITDA³ would be RMB32.017 billion, up by 4.2% as compared to the same period of last year. EBITDA margin (EBITDA as a percentage of the total revenue) would be 31.6%.

Operating Cash Flows and Capital Expenditures

In the first half of 2011, cash flows from operating activities were RMB34.352 billion, up by 10.5% from the same period of last year, capital expenditures totaled RMB25.968 billion. Free cash flows (representing net cash flows from operating activities minus capital expenditures) were RMB8.384 billion.

Balance Sheet

Liabilities-to-assets ratio changed from 53.4% as at 31 December 2010 to 53.0% as at 30 June 2011. Debt-to-capitalisation ratio changed from 32.0% as at 31 December 2010 to 31.7% as at 30 June 2011.

II. Business Overview

Mobile Business

3G Business

In the first half of 2011, the Company continued its unified 3G strategy, further optimized 3G tariff plans, improved prepaid products and services, and launched HSPA+ wireless data card. The Company adjusted its subsidy policy toward key 3G handsets, further lowered the thresholds for 3G handset subsidy, launched thousand-RMB wide-screen smartphones, and accelerated the introduction of mid-and-low-end smartphones into the market. The Company enhanced application development and data volume management, carried out promotional activities on key 3G data services, pushed forward the growth of key products such as mobile music, mobile TV, mobile Internet and mobile mailbox, and proactively promoted innovative services such as mobile microblog, mobile reading and online application store. In the first half of 2011, the number of 3G subscribers increased by 9.885 million to 23.945 million, of which the number of wireless data card subscribers amounted to 2.565 million; the total 3G voice usage amounted to 66.22 billion minutes, the average data usage per subscriber per month was 265.6M, and the average revenue per user (“ARPU”) per month was RMB117.5. The numbers of mobile TV subscribers, mobile reading subscribers and mobile mailbox subscribers were 8.511 million, 7.925 million and 17.528 million, respectively.

GSM Business

In the first half of 2011, the Company continued to transform its GSM business model and achieved the steady growth in its GSM business by taking a series of measures including, pushing forward fixed and mobile bundling, consolidating GSM tariff plans, introducing voice volume products and bundling products, promoting key services such as mobile Internet and

“Cool Ringtone”, upgrading the PHS subscribers to GSM, and gradually and steadily migrating the mid-and-high-end GSM subscribers to 3G. In the first half of 2011, the number of GSM subscribers increased by 4.299 million to 157.665 million; the total GSM voice usage amounted to 242.48 billion minutes, up 5.5% from the same period of last year; monthly ARPU was RMB38.3, down 3.8% from the same period of last year; the number of mobile Internet subscribers increased by 6.358 million to 62.170 million, representing a penetration rate of 39.4%; the number of “Cool Ringtone” subscribers amounted to 63.378 million, representing a penetration rate of 40.2%.

Fixed-line Business

In the first half of 2011, the Company continued to upgrade its broadband network and transmission speed, and improved the coverage and access capabilities of the broadband network. By introducing high-speed-based value-added products and promoting experiential marketing on high-speed broadband services, the Company increased the proportion of high-speed bandwidth subscribers. The Company also promoted more convenient broadband customer services as well as sales practices at communities. Those measures resulted in a rapid growth of the broadband business and an improved revenue mix of the overall fixed-line business. Leveraging on its full-service advantage, the Company vigorously promoted its fully bundled product “WO Family”, which facilitated the stable development of the fixed-line business and the retention of its local fixed-line subscribers. In the first half of 2011, the number of broadband subscribers increased by 5.098 million to 52.322 million. Subscribers with 4M-and-above bandwidth accounted for 35.0% of all broadband subscribers, up 10.2 percentage points from the same period of last year; the number of broadband content and application subscribers reached 19.396 million, accounting for 37.1% of all broadband subscribers. Monthly ARPU of broadband subscribers was RMB57.6, down 1.5% from the same period of last year; the number of “WO Family” subscribers increased by 3.309 million to 3.697 million, which helped bring in 1.409 million broadband and 1.004 million local fixed-line new subscribers.

In the first half of 2011, the number of local access subscribers declined by 1.177 million to 95.458 million, of which the number of PHS subscribers declined by 2.951 million to 10.472 million. Monthly ARPU of local access subscribers was RMB26.4, down 10.8% from the same period of last year.

Sales and Marketing

Branding Strategy

In the first half of 2011, the Company further developed its full-service branding practices and enriched the content of “WO” brand. In addition to the continuous promotion of “WO 3G”, the Company also strengthened the promotion of “WO Family” and “WO Business”, and steadily implemented the offerings of “WO Customer Care”. Through the increased use of the new media such as Internet as well as the enhanced cooperation with various media, the Company promoted its innovative products and services to targeted markets, and highlighted the overall strength of the “WO” brand in terms of 3G handsets, network, applications and customer care.

Sales and Marketing Strategy

In the first half of 2011, the Company successfully accelerated 3G business growth through a combination of improved 3G tariff plans and products, proactive handset subsidy programs, win-win cooperation with third-party channels and more diversified smartphone offerings. The Company also promoted the upgrade of its existing 2G users to 3G services in a proactive and steady way. Leveraging on the convergence trend, the Company launched broadband-based multimedia application trials for families, and promoted bundled service plans to families (under the brand of “WO Family”) and SMEs (under the brand of “WO Business”) to further facilitate the development of its integrated business model.

In the first half of 2011, the Company continued to deepen cooperation with mobile handset vendors and enriched the offerings of “WO 3G” terminals. The Company further optimized handset subsidy programs, and proactively promoted 3G service contracts that encourage users to purchase handsets themselves and enjoy discounts through fee deposits. Those measures led to a continuous increase in the percentage of 3G contracted subscribers and an improvement in 3G subscriber growth quality.

In the first half of 2011, with opportunities arising from the surging demand for informatization by governments and enterprises, the Company launched a series of exhibition activities to promote industry applications on key sectors such as automotive, aviation, insurance, securities etc. The Company has developed more than 3 million users by offering a series of industry applications such as mobile OA, government enforcement, automotive information services, monitoring and surveillance, stock trading and proprietary internet access. Industry applications have become an important driving force for the development of the Company’s mobile business for corporate accounts.

Distribution Channels

In the first half of 2011, the Company continued to improve its distribution system for its various telecom services and enhanced the sales capabilities of its various channels. To strengthen its self-owned channels, the Company launched performance evaluations on self-owned sales outlets and promoted experiential marketing practices at such locations. The Company accelerated its expansion into national and regional electronic chain stores and has made continuous and substantial progresses. In the first half of 2011, the Company entered into strategic and comprehensive cooperation agreements with several national chain store firms, such as Guomei, FunTalk, HiSap, as well as 80 regional chain store firms. The percentage of 3G subscribers acquired from third-party channels reached 51%. By further increasing promotional efforts, improving and optimizing the system functions and standardizing the operation processes of e-channels, the Company achieved rapid growth in its e-channels. In the first half of 2011, the revenue generated from the e-channels

Financial and Business Overview

reached RMB10.1 billion, up 113% from the same period of last year; and the number of e-channel customers exceeded 83 million, up 129% compared with the same period of last year.

Customer Care

In the first half of 2011, the Company expanded the subscriber-centered customer care system and pushed forward the implementation of the continuous improvement plans to further facilitate the Company's overall development. The Company optimized the measures and system to monitor customer care quality and enhanced the integration of call centers with sales and marketing efforts, so as to continuously raise the capability and quality of customer hotline services. The Company improved the segmentation of customer care system and strengthened customer care for high-end subscribers. The Company also accelerated the construction of the IT infrastructure for customer care to provide better support to the sales and marketing activities.

Note 1: Except for basic earnings per share figure, all revenue and profit figures mentioned above excluded deferred fixed-line upfront connection fees of RMB15 million for the first half of 2011 and RMB130 million for the first half of 2010.

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

Note 3: EBITDA represents profit for the period before finance costs, interest income, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditures and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like our Group.

Unaudited Condensed Consolidated Interim Financial Information

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2011
(All amounts in Renminbi ("RMB") millions)

	Note	30 June 2011	31 December 2010 As restated (Note 3 (a))
ASSETS			
Non-current assets			
Property, plant and equipment	5	363,172	366,060
Lease prepayments		7,566	7,607
Goodwill		2,771	2,771
Deferred income tax assets	6	5,617	4,840
Financial assets at fair value through other comprehensive income	7	9,989	6,214
Other assets	8	11,894	11,753
		401,009	399,245
Current assets			
Inventories and consumables	9	4,089	3,728
Accounts receivable, net	10	10,435	9,286
Prepayments and other current assets	11	4,794	5,115
Amounts due from related parties	30.1	39	50
Amounts due from domestic carriers	30.2	1,200	1,261
Short-term bank deposits		305	273
Cash and cash equivalents		18,042	22,495
		38,904	42,208
Total assets		439,913	441,453
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	2,311	2,310
Share premium	12	173,470	173,436
Reserves		(17,963)	(18,273)
Retained profits			
- Proposed 2010 final dividend	28	—	1,885
- Others		49,142	46,483
Total equity		206,960	205,841

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2011
(All amounts in RMB millions)

	Note	30 June 2011	31 December 2010 As restated (Note 3 (a))
LIABILITIES			
Non-current liabilities			
Long-term bank loans	13	1,449	1,462
Promissory notes	14	15,000	15,000
Convertible bonds	15	11,356	11,558
Corporate bonds	16	7,000	7,000
Deferred income tax liabilities	6	19	22
Deferred revenue		2,131	2,171
Other obligations		156	162
		37,111	37,375
Current liabilities			
Accounts payables and accrued liabilities	17	92,650	97,659
Taxes payable		1,593	1,484
Amounts due to ultimate holding company	30.1	213	229
Amounts due to related parties	30.1	4,526	5,191
Amounts due to domestic carriers	30.2	1,124	873
Commercial papers	18	24,000	23,000
Short-term bank loans	19	34,856	36,727
Current portion of long-term bank loans	13	54	58
Dividend payable	28	479	431
Current portion of deferred revenue		876	1,042
Current portion of other obligations		2,611	2,637
Advances from customers		32,860	28,906
		195,842	198,237
Total liabilities		232,953	235,612
Total equity and liabilities		439,913	441,453
Net current liabilities		(156,938)	(156,029)
Total assets less current liabilities		244,071	243,216

The notes on pages 18 to 52 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 2011
(All amounts in RMB millions, except per share data)

	Note	Six months ended 30 June	
		2011	2010 As restated (Note 2 (b))
Revenue	20	101,400	82,640
Interconnection charges		(7,763)	(6,479)
Depreciation and amortisation		(28,351)	(26,641)
Networks, operations and support expenses	21	(14,034)	(12,759)
Employee benefit expenses	22	(12,520)	(11,572)
Other operating expenses	23	(35,051)	(20,977)
Finance costs	24	(893)	(864)
Interest income		120	40
Other income - net	25	601	408
Profit before income tax		3,509	3,796
Income tax expenses	6	(857)	(874)
Profit for the period		2,652	2,922
Profit attributable to:			
Owners of the parent		2,652	2,922
Earnings per share for profit attributable to owners of the parent:			
Basic earnings per share (RMB)	29	0.11	0.12
Diluted earnings per share (RMB)	29	0.11	0.12

The notes on pages 18 to 52 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 2011
(All amounts in RMB millions)

	Note	Six months ended 30 June	
		2011	2010 As restated (Note 2 (b) and 3 (a))
Profit for the period		2,652	2,922
Other comprehensive income/(loss)			
Changes in fair value of financial assets through other comprehensive income	7	409	(2,710)
Tax effect on changes in fair value of financial assets through other comprehensive income		(102)	671
Changes in fair value of financial assets through other comprehensive income, net of tax		307	(2,039)
Currency translation differences		(6)	(17)
Other comprehensive income/(loss) for the period, net of tax		301	(2,056)
Total comprehensive income for the period		2,953	866
Total comprehensive income attributable to:			
Owners of the parent		2,953	866

The notes on pages 18 to 52 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 2011
(All amounts in RMB millions)

	Attributable to owners of the parent											Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Revaluation reserve	Available-for-sale fair value reserve	Investment revaluation reserve	Statutory reserves	Other reserve	Retained profits	Total		
Balance at 1 January 2010 (As previously reported)	2,310	173,435	79	567	106	6	—	24,251	(43,097)	48,808	208,465	2	206,467
Adjusted upon early adoption of IFRS/HKFRS 9 (Note 3 (a))	—	—	—	—	—	(6)	6	—	—	—	—	—	—
Balance at 1 January 2010 (As restated)	2,310	173,435	79	567	106	—	6	24,251	(43,097)	48,808	208,465	2	206,467
Total comprehensive (loss)/income for the period	—	—	—	—	—	—	(2,039)	—	(17)	2,922	866	—	866
Transfer to retained profits in respect of depreciation on revalued assets	—	—	—	—	(26)	—	—	—	—	26	—	—	—
Transfer to statutory reserves	—	—	—	—	—	—	—	130	—	(130)	—	—	—
Equity-settled share option schemes: - Value of employee services	—	—	—	53	—	—	—	—	—	—	53	—	53
Dividends relating to 2009 (Note 28)	—	—	—	—	—	—	—	—	—	(3,770)	(3,770)	—	(3,770)
Balance at 30 June 2010 (As restated)	2,310	173,435	79	620	80	—	(2,033)	24,381	(43,114)	47,856	203,614	2	203,616

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2011
(All amounts in RMB millions)

	Attributable to owners of the parent											Total equity
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Revaluation reserve	Available-for-sale fair value reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	
Balance at 1 January 2011 (As previously reported)	2,310	173,436	79	623	56	(1,334)	—	24,822	572	(43,091)	48,368	205,841
Adjusted upon early adoption of IFRS/HKFRS 9 (Note 3 (a))	—	—	—	—	—	1,334	(1,334)	—	—	—	—	—
Balance at 1 January 2011 (As restated)	2,310	173,436	79	623	56	—	(1,334)	24,822	572	(43,091)	48,368	205,841
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	307	—	—	(6)	2,652	2,953
Transfer to retained profits in respect of depreciation on revalued assets	—	—	—	—	(21)	—	—	—	—	—	21	—
Transfer to statutory reserves	—	—	—	—	—	—	—	15	—	—	(15)	—
Equity-settled share option schemes:												
-Value of employee services	—	—	—	17	—	—	—	—	—	—	—	17
-Issuance of shares upon exercise of options	1	34	—	(1)	—	—	—	—	—	—	—	34
-Transfer between reserves upon lapsing of options	—	—	—	(1)	—	—	—	—	—	—	1	—
Dividends relating to 2010 (Note 28)	—	—	—	—	—	—	—	—	—	—	(1,885)	(1,885)
Balance at 30 June 2011	2,311	173,470	79	638	35	—	(1,027)	24,837	572	(43,097)	49,142	206,960

The notes on pages 18 to 52 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 2011
(All amounts in RMB millions)

	Note	Six months ended 30 June	
		2011	2010
Net cash inflow from operating activities		34,352	31,089
Net cash outflow from investing activities	(a)	(36,524)	(32,737)
Net cash (outflow)/inflow from financing activities		(2,281)	649
Net decrease in cash and cash equivalents		(4,453)	(999)
Cash and cash equivalents, beginning of period		22,495	7,820
Cash and cash equivalents, end of period		18,042	6,821
Analysis of the balances of cash and cash equivalents:			
Cash balances		7	7
Bank balances		18,035	6,814
		18,042	6,821

(a) The amount of net cash outflow from investing activities for the six months ended 30 June 2010 included the proceeds of approximately RMB5,121 million received in relation to disposal of the CDMA business in 2008.

The notes on pages 18 to 52 are an integral part of this unaudited condensed consolidated interim financial information.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the “Company”) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on 8 February 2000. The principal activities of the Company are investment holding. After the disposal of the CDMA business to China Telecom Corporation Limited on 1 October 2008, the merger with China Netcom Group Corporation (Hong Kong) Limited (“China Netcom”) on 15 October 2008 and the launch of WCDMA mobile business on 1 October 2009, 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 is referred to as the “Mobile business”, the services aforementioned other than the Mobile business is 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 Netcom Group Corporation (BVI) Limited (“Netcom 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”). Netcom 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 2011 has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim financial reporting” issued by the International Accounting Standards Board (“IASB”). IAS 34 is consistent with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 and 2010 have not been audited by the auditors, and the financial information for the year ended 31 December 2010 is extracted from the audited financial statements as set out in the Company’s 2010 Annual Report.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010. 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 2010 Annual Report and there have been no significant changes in any risk management policies for the six months ended 30 June 2011.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

2. BASIS OF PREPARATION *(Continued)*

(a) Going Concern Assumption

As at 30 June 2011, current liabilities of the Group exceeded current assets by approximately RMB156.9 billion (31 December 2010: approximately RMB156.0 billion). Given the current global economic conditions and the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB173.5 billion of revolving banking facilities and registered quota of commercial papers, of which approximately RMB118.1 billion was unutilised as at 30 June 2011; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group will continue to optimise its fund raising strategy from the short, medium and long-term perspectives and will maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2011 has been prepared on a going concern basis.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

(b) Revenue Recognition on Sales of Services and Goods

The Group offers promotional packages to the customers which include the bundled sale of mobile handset and provision of services. Prior to the fourth quarter of 2010, the Group determined the amount of revenue allocated to the handset using the residual value method. Under such method, the Group determined the revenue from the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration. The Group recognised revenue related to the sale of the handset when the title is passed to the customer whereas service revenue was recognised based upon the actual usage of mobile services. The cost of the mobile handset was expensed immediately to the statement of income.

During 2010, the Group has offered preferential promotional packages with more attractive terms to new subscribers, and more new subscribers were developed under such preferential packages during the year. In order to provide reliable and more relevant information to users of the financial statements, starting from the fourth quarter of 2010, the Group determined to adopt the accounting policy of relative fair value method retrospectively from 1 January 2010 to account for such preferential promotional packages, considering that each deliverable in the promotional packages has standalone value to the customer and there is objective and reliable evidence of the fair value regarding each deliverable in the services packages. Under the relative fair value method, the total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition.

This change in accounting policy resulted in an increase in the Group's revenue, profit before income tax, profit for the period and earnings per share of RMB527 million, RMB527 million, RMB396 million and RMB0.02, respectively, for the six months ended 30 June 2010; and a decrease in advances from customers of RMB545 million as at 30 June 2010. The 2010 comparative figures have been restated accordingly.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

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 2010.

(a) Early Adoption of IFRS/HKFRS 9

On 1 January 2011, the Group early adopted IFRS/HKFRS 9 "Financial Instruments". IFRS/HKFRS 9 requires an entity to classify its financial assets into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

Following the adoption of IFRS/HKFRS 9 on 1 January 2011, investments and other financial assets of the Group held are classified under the following categories:

Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, accounts receivable and other deposits are also classified under this category.

Financial assets under this category are carried at amortised cost using effective interest method less provision for impairment. Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in the statement of income. Interest income is recognised in the statement of income using the effective interest method and disclosed as interest income.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Early Adoption of IFRS/HKFRS 9 (Continued)

Financial assets measured at fair value

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives are classified in their entirety as measured at fair value where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk.

Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in the statement of income or the statement of comprehensive income in cases where an irrevocable election is made by the Group to recognise changes in fair value of a financial asset measured at fair value only through other comprehensive income, in the period in which they arise. Upon disposal of the investments, the differences between the net sale proceeds and the carrying values are included in the statement of income or the statement of comprehensive income. Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

Purchases and sales of financial assets are recognised on the transaction date. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

Upon the adoption of the standard, the Group:

- Classified its investments in equity instruments as those measured at fair value;
- Made an irrevocable election to recognise changes in fair value of these financial assets only through other comprehensive income. As a result of this election, all subsequent fair value or disposal gains/losses will not be recognised in the statement of income; and
- Transferred the balance of available-for-sale fair value reserve to investment revaluation reserve.

There was no impact on the Group's accounting for financial liabilities, as the new standard only affect the accounting for financial liabilities that are designated at fair value through profit and loss, and the Group did not have any such liabilities.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New Accounting Standards, Amendments and Interpretations Pronouncements

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011 and are applicable for the Group:

IFRIC/HK(IFRIC) – Int 19, “Extinguishing financial liabilities with equity instruments”

IFRS/HKFRS 3 (amendments), “Business combinations”

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

IAS/HKAS 1 (amendments), “Presentation of financial statements”

IAS/HKAS 27 (amendments), “Consolidated and separate financial statements”

IAS/HKAS 34 (amendments), “Interim financial reporting”

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

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group. Management is assessing the impact of such new standards, amendments to standards and interpretations and will adopt the relevant standards, amendments to standards and interpretations in the subsequent periods as required.

4. SEGMENT INFORMATION

The Chief Operating Decision Maker (the “CODM”) has been identified as the Board of Directors (the “BOD”) of the Company which regularly reviews the Group’s internal reporting in order to assess performance and allocate resources; and determines the operating segments based on these reports. The BOD considers the business from the provision of services perspective instead of the geographic perspective. Accordingly, the Group’s operations comprise two operating segments based on the various types of telecommunications services, mainly provided to customers in Mainland China.

The major operating segments of the Group are classified as follows:

- Mobile business — the provision of GSM and WCDMA cellular and related services primarily in all 31 provinces, municipalities and autonomous regions in Mainland China;
- Fixed-line business — the provision of fixed-line telecommunications and related services, domestic and international data and Internet related services, and domestic and international long distance and related services primarily in all 31 provinces, municipalities and autonomous regions in Mainland China.

The CODM evaluates results of each operating segment based on revenue and costs that are directly attributable to the operating segments. The unallocated amounts primarily represent corporate and shared service expenses that are not directly allocated to one of the aforementioned operating segments. The unallocated amounts also included other statement of income items such as employee benefit expenses, interest income, income tax expenses, finance costs and other income, which cannot be directly identified to specific operating segments. Segment assets primarily comprise property, plant and equipment, other assets, inventories and receivables. Segment liabilities primarily comprise operating liabilities.

Revenues between segments are carried out on terms comparable to those transactions conducted with third parties or at standards promulgated by relevant government authorities. Revenue from external customers reported to the CODM is measured in a manner consistent with that in the unaudited condensed consolidated interim statement of income.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments

	Six months ended 30 June 2011					
	Mobile business	Fixed-line business	Subtotal	Reconciling items		Total
				Unallocated amounts	Eliminations	
Telecommunications service revenue	48,974	40,112	89,086	—	—	89,086
Information communication technology services and other revenue	24	806	830	449	—	1,279
Sales of telecommunications products	11,002	33	11,035	—	—	11,035
Total revenue from external customers	60,000	40,951	100,951	449	—	101,400
Intersegment revenue	67	2,173	2,240	266	(2,506)	—
Total revenue	60,067	43,124	103,191	715	(2,506)	101,400
Interconnection charges	(8,284)	(1,714)	(9,998)	—	2,235	(7,763)
Depreciation and amortisation Networks, operations and support expenses	(12,599)	(14,584)	(27,183)	(1,226)	58	(28,351)
Employee benefit expenses	(1,768)	(4,637)	(6,405)	(7,631)	2	(14,034)
Other operating expenses	—	—	—	(12,630)	110	(12,520)
Finance costs	(21,149)	(4,787)	(25,936)	(9,200)	85	(35,051)
Interest income	—	—	—	(1,149)	256	(893)
Other income - net	—	—	—	376	(256)	120
Segment profit/(loss) before income tax	—	—	—	601	—	601
Segment profit/(loss) before income tax	16,267	17,402	33,669	(30,144)	(16)	3,509
Income tax expenses						(857)
Profit for the period						2,652
Attributable to: Owners of the parent						2,652
Other information: Provision for doubtful debts	(1,065)	(369)	(1,434)	(7)	—	(1,441)
Capital expenditures for segment assets (a)	7,928	10,943	18,871	7,097	—	25,968

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments (Continued)

	Six months ended 30 June 2010 (As restated)					
	Mobile business	Fixed-line business	Subtotal	Reconciling items		Total
				Unallocated amounts	Eliminations	
Telecommunications service revenue	39,060	39,606	78,666	537	—	79,203
Information communication technology services and other revenue	51	437	488	421	—	909
Sales of telecommunications products	2,462	66	2,528	—	—	2,528
Total revenue from external customers	41,573	40,109	81,682	958	—	82,640
Intersegment revenue	92	2,118	2,210	319	(2,529)	—
Total revenue	41,665	42,227	83,892	1,277	(2,529)	82,640
Interconnection charges	(6,853)	(1,836)	(8,689)	—	2,210	(6,479)
Depreciation and amortisation	(11,257)	(14,331)	(25,588)	(1,089)	36	(26,641)
Networks, operations and support expenses	(1,395)	(4,232)	(5,627)	(7,134)	2	(12,759)
Employee benefit expenses	—	—	—	(11,679)	107	(11,572)
Other operating expenses	(8,462)	(4,335)	(12,797)	(8,287)	107	(20,977)
Finance costs	—	—	—	(959)	95	(864)
Interest income	—	—	—	135	(95)	40
Other income - net	—	—	—	408	—	408
Segment profit/(loss) before income tax	13,698	17,493	31,191	(27,328)	(67)	3,796
Income tax expenses						(874)
Profit for the period						2,922
Attributable to: Owners of the parent						2,922
Other information: Provision for doubtful debts	(932)	(472)	(1,404)	(3)	—	(1,407)
Capital expenditures for segment assets (a)	10,788	11,596	22,384	10,932	—	33,316

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments (Continued)

30 June 2011						
	Mobile business	Fixed-line business	Subtotal	Reconciling items		Total
				Unallocated amounts	Eliminations	
Total segment assets	170,912	227,527	398,439	43,109	(1,635)	439,913
Total segment liabilities	74,803	48,908	123,711	110,360	(1,118)	232,953

31 December 2010						
	Mobile business	Fixed-line business	Subtotal	Reconciling items		Total
				Unallocated amounts	Eliminations	
Total segment assets	170,839	225,769	396,608	46,446	(1,601)	441,453
Total segment liabilities	74,141	48,386	122,527	114,184	(1,099)	235,612

- (a) Capital expenditures under “unallocated amounts” represent capital expenditures on common facilities, which benefit all operating segments.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment for the six months ended 30 June 2011 and 2010 are as follows:

	Six months ended 30 June 2011						Total
	Buildings	Tele-communications equipment of Mobile business	Tele-communications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress ("CIP")	
Cost or valuation:							
Beginning of period	53,782	239,604	398,340	42,894	2,321	59,245	796,186
Additions	125	173	403	52	13	23,767	24,533
Transfer from CIP	884	11,552	11,372	1,643	303	(25,754)	—
Disposals	(17)	(1,660)	(1,445)	(295)	(72)	—	(3,489)
End of period	54,774	249,669	408,670	44,294	2,565	57,258	817,230
Representing:							
At cost	54,774	249,669	—	—	—	57,258	361,701
At valuation	—	—	408,670	44,294	2,565	—	455,529
	54,774	249,669	408,670	44,294	2,565	57,258	817,230
Accumulated depreciation and impairment:							
Beginning of period	(16,671)	(112,950)	(270,633)	(28,796)	(1,060)	(16)	(430,126)
Charge for the period	(1,092)	(9,200)	(14,814)	(1,947)	(254)	—	(27,307)
Disposals	16	1,604	1,401	281	72	—	3,374
Impairment transfer out	—	—	1	—	—	—	1
End of period	(17,747)	(120,546)	(284,045)	(30,462)	(1,242)	(16)	(454,058)
Net book value:							
End of period	37,027	129,123	124,625	13,832	1,323	57,242	363,172
Beginning of period	37,111	126,654	127,707	14,098	1,261	59,229	366,060

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Six months ended 30 June 2010						
	Buildings	Tele-communications equipment of Mobile business	Tele-communications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress ("CIP")	Total
Cost or valuation:							
Beginning of period	49,364	206,923	369,023	41,414	1,886	64,172	732,782
Additions	26	113	253	51	112	31,635	32,190
Transfer from CIP	2,060	19,422	9,549	1,218	118	(32,367)	—
Disposals	(48)	(324)	(651)	(208)	(228)	—	(1,459)
End of period	51,402	226,134	378,174	42,475	1,888	63,440	763,513
Representing:							
At cost	51,402	226,134	—	—	—	63,440	340,976
At valuation	—	—	378,174	42,475	1,888	—	422,537
	51,402	226,134	378,174	42,475	1,888	63,440	763,513
Accumulated depreciation and impairment:							
Beginning of period	(14,658)	(97,841)	(243,055)	(25,137)	(909)	(25)	(381,625)
Charge for the period	(968)	(7,857)	(14,309)	(2,238)	(184)	—	(25,556)
Disposals	46	282	567	199	228	—	1,322
End of period	(15,580)	(105,416)	(256,797)	(27,176)	(865)	(25)	(405,859)
Net book value:							
End of period	35,822	120,718	121,377	15,299	1,023	63,415	357,654
Beginning of period	34,706	109,082	125,968	16,277	977	64,147	351,157

As at 30 June 2011, the net book value of all the revalued property, plant and equipment would have been approximately RMB142,586 million (31 December 2010: approximately RMB147,148 million) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

For the six months ended 30 June 2011, the Group recognised a gain on disposal of property, plant and equipment of approximately RMB15 million (for the six months ended 30 June 2010: loss of approximately RMB48 million).

Notes to Unaudited Condensed Consolidated Interim Financial Information

(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 2010: 16.5%) on the estimated assessable profit for the six months ended 30 June 2011. Taxation on profits from outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2011 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 2010: 25%).

	Six months ended 30 June	
	2011	2010 (As restated)
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	8	9
– Outside Hong Kong	1,731	951
	1,739	960
Deferred taxation	(882)	(86)
Income tax expenses	857	874

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

	Six months ended 30 June	
	2011	2010 (As restated)
Applicable PRC statutory tax rate	25.0%	25.0%
Non-deductible expenses	2.4%	1.3%
Non-taxable income		
– Upfront and installation fees arising from Fixed-line business	(0.6%)	(1.6%)
Impact of PRC preferential tax rates and tax holiday	(1.2%)	(0.8%)
Others	(1.2%)	(0.9%)
Effective tax rate	24.4%	23.0%

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

6. TAXATION (Continued)

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

	Six months ended 30 June	
	2011	2010
Net deferred tax assets after offsetting:		
Beginning of period	4,840	5,202
Deferred tax credited to the statement of income	879	128
Deferred tax (charged)/credited to other comprehensive income	(102)	402
End of period	5,617	5,732
Net deferred tax liabilities after offsetting:		
Beginning of period	(22)	(245)
Deferred tax credited/(charged) to the statement of income	3	(42)
Deferred tax credited to other comprehensive income	—	269
End of period	(19)	(18)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June	31 December
	2011	2010 (As restated)
Equity securities issued by corporates	9,989	6,214
Analysed by place of listing:		
Listed in the PRC	128	127
Listed outside of PRC	9,861	6,087
	9,989	6,214

For the six months ended 30 June 2011, changes in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB409 million (for the six months ended 30 June 2010: approximately RMB2,710 million). The changes in fair value, net of tax impact, of approximately RMB307 million (for the six months ended 30 June 2010: approximately RMB2,039 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

The Company increased its investment in Telefónica S.A. ("Telefónica") in January 2011. Please refer to Note 26 for details.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

8. OTHER ASSETS

	30 June 2011	31 December 2010
Direct incremental costs for activating mobile subscribers	427	423
Installation costs of Fixed-line business	1,154	1,309
Prepaid rental for premises and leased lines	3,526	3,521
Purchased software	4,682	4,440
Others	2,105	2,060
	11,894	11,753

9. INVENTORIES AND CONSUMABLES

	30 June 2011	31 December 2010
Handsets and other customer end products	2,661	2,461
Telephone cards	318	308
Consumables	975	860
Others	135	99
	4,089	3,728

10. ACCOUNTS RECEIVABLE, NET

	30 June 2011	31 December 2010
Accounts receivable for Mobile business	7,412	5,022
Accounts receivable for Fixed-line business	7,891	8,042
Accounts receivable for other business	447	202
Sub-total	15,750	13,266
Less: Provision for doubtful debts for Mobile business	(3,028)	(2,074)
Provision for doubtful debts for Fixed-line business	(2,173)	(1,829)
Provision for doubtful debts for other business	(114)	(77)
	10,435	9,286

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

10. ACCOUNTS RECEIVABLE, NET (Continued)

The aging analysis of accounts receivable is as follows:

	30 June 2011	31 December 2010
Within one month	7,686	6,625
More than one month to three months	1,562	1,316
More than three months to one year	3,751	3,054
More than one year	2,751	2,271
	15,750	13,266

The normal credit period granted by the Group is on average between 30 days to 90 days from the date of billing.

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

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June 2011	31 December 2010
Prepaid rental	1,254	1,318
Deposits and prepayments	2,080	2,006
Prepaid income taxes	26	620
Advances to employees	369	321
Others	1,065	850
	4,794	5,115

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

	30 June 2011	31 December 2010
Within one year	4,222	4,629
More than one year	572	486
	4,794	5,115

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

12. SHARE CAPITAL

	30 June 2011 HKD millions	31 December 2010 HKD millions			
Authorised:					
30,000,000,000 ordinary shares, par value of HKD0.10 each	3,000	3,000			
	Number of shares millions	Ordinary shares, par value of HKD0.10 each HKD millions	Share capital	Share premium	Total
Issued and fully paid:					
At 1 January 2010 and 30 June 2010	23,562	2,355	2,310	173,435	175,745
At 1 January 2011	23,562	2,355	2,310	173,436	175,746
Issuance of shares upon exercise of options (Note 27)	3	1	1	34	35
At 30 June 2011	23,565	2,356	2,311	173,470	175,781

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

13. LONG-TERM BANK LOANS

		30 June 2011	31 December 2010
Interest rates and final maturity			
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		
– secured		800	800
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00 % (31 December 2010: Nil to 5.00%) per annum with maturity through 2039 (31 December 2010: maturity through 2039)		
– secured (a)		122	128
– unsecured		311	327
		433	455
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2010: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2010: maturity through 2034)		
– unsecured		270	265
Sub-total		1,503	1,520
Less: Current portion		(54)	(58)
		1,449	1,462

Notes to Unaudited Condensed Consolidated Interim Financial Information

(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 2011	31 December 2010
Balances due:		
– not later than one year	54	58
– later than one year and not later than two years	51	50
– later than two years and not later than five years	954	950
– later than five years	444	462
	1,503	1,520
Less: Portion classified as current liabilities	(54)	(58)
	1,449	1,462

- (a) As at 30 June 2011, bank loans of approximately RMB122 million (31 December 2010: approximately RMB128 million) were secured by corporate guarantees granted by third parties.

14. PROMISSORY NOTES

On 2 April 2010, China United Network Communications Corporation Limited (“CUCL”, a wholly-owned subsidiary of the Company) issued tranche one of promissory note in an amount of RMB3 billion, with a maturity period of 3 years from the date of issue and carries interest at 3.73% per annum.

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

Notes to Unaudited Condensed Consolidated Interim Financial Information

(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 HKD0.10 per share of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to adjustment in certain events set out in the Trust deed dated 18 October 2010. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date not later than seven days prior to the date fixed for redemption thereof. Billion Express will, at the option of a bondholder, redeem all and not some only of such bondholder’s convertible bonds on 18 October 2013 at their principal amount together with interest accrued and unpaid to the date fixed for redemption. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

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

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

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

Liability component on initial recognition, net of direct issue costs	11,568
Less: effect of exchange gain on liability component	(55)
Add: imputed finance cost	45
Liability component at 31 December 2010	11,558
Less: effect of exchange gain on liability component	(264)
Less: interest paid	(45)
Add: imputed finance cost	107
Liability component at 30 June 2011	11,356

The liability component of the convertible bonds at 30 June 2011 amounted to approximately RMB11,356 million (equivalent to USD1,755 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.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(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 interest at 5.29% per annum. The corporate bonds are secured by a corporate guarantee granted by State Grid Corporation of China.

17. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	30 June 2011	31 December 2010
Payables to contractors and equipment suppliers	68,996	76,534
Payables to telecommunications product suppliers	2,598	3,189
Customer/contractor deposits	2,964	3,200
Repair and maintenance expense payables	3,104	2,449
Salary and welfare payables	2,413	1,017
Interest payables	969	740
Amounts due to service providers/content providers	1,204	1,034
Accrued expenses	6,998	5,394
Others	3,404	4,102
	92,650	97,659

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

	30 June 2011	31 December 2010
Less than six months	81,471	85,485
Six months to one year	3,526	3,866
More than one year	7,653	8,308
	92,650	97,659

18. COMMERCIAL PAPERS

On 1 April 2010, CUCL issued tranche one of 2010 commercial paper in an amount of RMB15 billion, with a maturity date of 365 days from the date of issue and carries interest at 2.64% per annum. The commercial paper was fully repaid in March 2011.

On 20 September 2010, CUCL issued tranche two of 2010 commercial paper in an amount of RMB8 billion, with a maturity date of 365 days from the date of issue and carries interest at 2.81% per annum.

On 10 March 2011, CUCL issued tranche one and tranche two of 2011 super and short-term commercial papers in an amount of RMB8 billion each, with a maturity date of 180 days from the date of issue and carries interest at 3.88% per annum.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

19. SHORT-TERM BANK LOANS

Interest rates and final maturity		30 June 2011	31 December 2010
RMB denominated bank loans	Fixed interest rates ranging from 3.62% to 3.87% (31 December 2010: 2.88% to 4.59%) per annum with maturity through 2012 (31 December 2010: maturity through 2011)		
– unsecured		380	2,610
RMB denominated bank loans	Floating interests rates ranging from 10% (31 December 2010: 10%) downward on the benchmark interest rate to the benchmark interest rate issued by the People's Bank of China with maturity through 2011 (31 December 2010: maturity through 2011)		
– unsecured		19,590	23,195
– secured		–	30
		19,590	23,225
HKD denominated bank loans	Floating interest rates of HIBOR plus interest margin ranging from 0.40% to 1.20% (31 December 2010: plus 0.40% to 1.00%) per annum with maturity through 2012 (31 December 2010: maturity through 2011)		
– unsecured		14,886	10,892
Total		34,856	36,727

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

20. REVENUE

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

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to approximately RMB3,064 million for the six months ended 30 June 2011 (for the six months ended 30 June 2010: approximately RMB2,323 million).

The major components of revenue are as follows:

	Six months ended 30 June	
	2011	2010 (As restated)
Mobile business		
– Usage and monthly fees	26,403	22,337
– Value-added services revenue	17,310	12,256
– Interconnection revenue	5,105	4,209
– Other service revenue	156	258
Total mobile telecommunications service revenue	48,974	39,060
Fixed-line business		
– Usage and monthly fees	12,558	15,159
– Broadband, data and other Internet-related services revenue	18,761	15,746
– Leased line income	3,363	2,800
– Value-added services revenue	2,313	2,421
– Interconnection revenue	2,389	2,712
– Upfront connection fees	15	130
– Other service revenue	713	638
Total fixed-line telecommunications service revenue	40,112	39,606
Unallocated telecommunications service revenue	—	537
Total telecommunications service revenue	89,086	79,203
Information communication technology services and other revenue	1,279	909
Sales of telecommunications products	11,035	2,528
Total revenue from external customers	101,400	82,640

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

21. NETWORKS, OPERATIONS AND SUPPORT EXPENSES

	Six months ended 30 June	
	2011	2010
Repair and maintenance	4,434	4,165
Power and water charges	4,764	4,282
Operating leases for networks, premises, equipment and facilities	4,321	3,874
Others	515	438
Total networks, operations and support expenses	14,034	12,759

22 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2011	2010
Salaries and wages	10,302	9,414
Contributions to defined contribution pension schemes	1,385	1,308
Contributions to housing fund	727	699
Other housing benefits	89	98
Share-based compensation	17	53
Total employee benefit expenses	12,520	11,572

23. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2011	2010
Provision for doubtful debts	1,441	1,407
Cost of telecommunications products sold	14,293	3,102
Cost in relation to information communications technology services	707	367
Commission expenses	8,137	6,609
Advertising and promotion expenses	2,077	1,726
Customer installation cost	1,307	1,258
Customer acquisition and retention cost	2,074	1,387
Property management fee	785	732
Office and administrative expenses	1,574	1,289
Transportation expense	926	943
Miscellaneous taxes and fees	360	332
Others	1,370	1,825
Total other operating expenses	35,051	20,977

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

24. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
Finance costs:		
– Interest on bank loans repayable within 5 years	702	1,040
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	784	257
– Interest on convertible bonds repayable within 5 years	107	—
– Interest on related party loans repayable within 5 years	10	11
– Interest on bank loans repayable over 5 years	3	2
– Interest on corporate bonds repayable over 5 years	45	45
– Less: Amounts capitalised in construction-in-progress	(489)	(447)
Total interest expense	1,162	908
– Exchange gain, net	(446)	(122)
– Others	177	78
Total finance costs	893	864

25. OTHER INCOME - NET

	Six months ended 30 June	
	2011	2010 (As restated)
Dividend income from financial assets at fair value through other comprehensive income	446	233
Others	155	175
Total other income - net	601	408

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

26. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA IN EACH OTHER

On 6 September 2009, the Company announced that in order to strengthen the cooperation between the Company and Telefónica, the parties entered into a strategic alliance agreement and a subscription agreement, pursuant to which each party conditionally agreed to invest an equivalent of USD1 billion in each other through an acquisition of each other's shares.

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

As at 30 June 2011, the related financial assets at fair value through other comprehensive income amounted to approximately RMB9,861 million (31 December 2010: approximately RMB6,087 million). For the six months ended 30 June 2011, changes in fair value of the financial assets at fair value through other comprehensive income amounted to approximately RMB408 million (for the six months ended 30 June 2010: approximately RMB2,648 million). The changes in fair value, net of tax impact of approximately RMB306 million (for the six months ended 30 June 2010: approximately RMB1,986 million), was recorded in the unaudited condensed consolidated interim statement of comprehensive income.

27. 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 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			
	2011		2010	
	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	6.59	396,012,118	6.95	413,074,166
Granted	—	—	—	—
Lapsed	15.42	(1,806,000)	15.42	(16,977,600)
Exercised	15.42	(2,544,000)	—	—
Balance, end of period	6.49	391,662,118	6.59	396,096,566

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

27. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

Exercise of share options during the six months ended 30 June 2011 resulted in 2,544,000 shares being issued (six months ended 30 June 2010: Nil), with exercise proceeds of approximately RMB32.62 million.

As at 30 June 2011, all of the 391,662,118 outstanding share options (31 December 2010: 396,012,118), were exercisable, and the weighted average exercise price was HKD6.49 (31 December 2010: HKD6.59).

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 2011	Number of share options outstanding as at 31 December 2010
Share options granted under the Share Option Scheme:					
30 June 2001	30 June 2001	30 June 2001 to 22 June 2011	HKD15.42	—	4,350,000
21 May 2003	21 May 2003 to 21 May 2006	21 May 2004 to 20 May 2012	HKD4.30	8,956,000	8,956,000
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2012	HKD5.92	41,024,000	41,024,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2012	HKD6.20	654,000	654,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2013	HKD6.35	151,556,000	151,556,000
Share options granted under the Special Purpose Share Option Scheme:					
15 October 2008	15 October 2008 to 17 May 2009	15 October 2008 to 16 November 2012	HKD5.57	100,542,650	100,542,650
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2012	HKD8.26	88,929,468	88,929,468
				391,662,118	396,012,118

The options outstanding as at 30 June 2011 had a weighted average remaining contractual life of 1.44 years (31 December 2010: 0.93 years).

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

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

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

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

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

No option was exercised for the six months ended 30 June 2010.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

28. DIVIDENDS

At the annual general meeting held on 24 May 2011, the shareholders of the Company approved the payment of a final dividend of RMB0.08 per ordinary share for the year ended 31 December 2010 totaling approximately RMB1,885 million (for the year ended 31 December 2010: approximately RMB3,770 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2011. As at 30 June 2011, all dividends have been paid by the Company, except for dividends payable of approximately RMB479 million 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 TRE from 1 January 2008. Therefore, as at 31 December 2010, 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-TRE enterprise shareholders, the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-TRE enterprise shareholders thereon and reclassified 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.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

29. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2011 and 2010 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2011 and 2010 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. All potential ordinary shares for the six months ended 30 June 2011 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme and (iii) convertible bonds, while all potential ordinary shares for the six months ended 30 June 2010 arose from (i) share options granted under the amended Share Option Scheme; and (ii) share options granted under the amended Special Purpose Share Option Scheme.

The potential ordinary shares which are not dilutive for the six months ended 30 June 2011 arose from convertible bonds with initial conversion price of HKD15.85, while the potential ordinary shares which are not dilutive for the six months ended 30 June 2010 arose from share options with exercise price of HKD15.42 granted under the amended Share Option Scheme, which were excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

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

	Six months ended 30 June	
	2011	2010 (As restated)
Numerator (in RMB millions):		
Profit attributable to owners of the parent	2,652	2,922
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,562	23,562
Dilutive equivalent shares arising from share options	210	117
Shares used in computing diluted earnings per share	23,772	23,679
Basic earnings per share (in RMB)	0.11	0.12
Diluted earnings per share (in RMB)	0.11	0.12

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

30. RELATED PARTY TRANSACTIONS

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

30.1 Transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

The following is a summary of significant recurring transactions carried out by the Group with Unicom Group and its subsidiaries. In the directors' opinion, these transactions were carried out in the ordinary course of business.

	Six months ended 30 June	
	2011	2010
Transactions with Unicom Group and its subsidiaries:		
Leasing fee of telecommunications networks in Southern China	1,200	1,100
Charges for lease of telecommunications resources	155	79
Rental charges for property leasing	463	398
Charges for value-added telecommunications services	77	48
Charges for equipment procurement services	88	141
Charges for engineering design and construction services	520	448
Charges for ancillary telecommunications services	584	417
Charges for comprehensive support services	78	82
Income from comprehensive support services	46	6
Charges for shared services	81	143
Income from shared services	—	3

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (Continued)

30.1 Transactions with Unicom Group and its subsidiaries (Continued)

(b) *Renewal of continuing connected transactions in October 2010*

The agreements governing the recurring related party transactions disclosed in (a) above entered between the Group and Unicom Group and its subsidiaries expired on 31 December 2010. Accordingly, on 29 October 2010, CUCL entered into the new agreements, “2011-2012 Network Lease Agreement” with Unicom New Horizon Mobile Telecommunications Company Limited (“Unicom New Horizon”), and “2011 Comprehensive Services Agreement” with Unicom Group to renew certain continuing connected transactions. Major changes of the key terms between the new agreements and the previous agreements are set out as follows:

- *2011-2012 Network Lease Agreement*

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

- *2011 Comprehensive Services Agreement*

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

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

Amounts due to related parties as at 30 June 2011 included an unsecured short-term loan from China Netcom Corporation (BVI) Limited of approximately HKD2,390 million (equivalent to RMB1,988 million) (31 December 2010: HKD2,390 million, equivalent to RMB2,033 million). The loan carried interest rate at HIBOR plus 0.8% per annum and was repayable on 16 June 2011. The loan is extended for another one year in June 2011 with the same terms.

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

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (Continued)

30.2 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	
	2011	2010
Interconnection revenue	6,427	5,920
Interconnection charges	7,094	5,919
Leased line revenue	178	121
Leased line charges	8	25
Engineering design and technical service revenue	102	115

(b) Amounts due from and to domestic carriers

	30 June 2011	31 December 2010
Amounts due from domestic carriers		
– Receivables for interconnection revenue, leased line revenue and engineering design and technical service revenue	1,242	1,296
– Less: Provision for doubtful debts	(42)	(35)
	1,200	1,261
Amounts due to domestic carriers		
– Payables for interconnection charges and leased line charges	1,124	873

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

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (Continued)

30.3 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2011 and 2010 are set out below:

	Six months ended 30 June	
	2011 (RMB'000)	2010 (RMB'000)
Non-executive directors:		
Fees	965	1,006
Other benefits (a)	—	169
	965	1,175
Executive directors:		
Fees	—	—
Other emoluments		
– Salaries and allowances	461	3,466
– Bonuses paid and payable	1,048	1,645
– Other benefits (a)	8	752
– Contributions to pension schemes	57	54
	1,574	5,917
	2,539	7,092

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

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

31. CONTINGENCIES AND COMMITMENTS

31.1 Capital commitments

As at 30 June 2011 and 31 December 2010, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	30 June 2011			31 December 2010
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	166	8,168	8,334	6,080
Authorised but not contracted for	179	2,123	2,302	2,303
Total	345	10,291	10,636	8,383

31.2 Operating lease commitments

As at 30 June 2011 and 31 December 2010, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	30 June 2011			31 December 2010
	Land and buildings	Equipment	Tele- communications networks in Southern China (Note 30.1(b))	Total
Leases expiring:				
– not later than one year	1,608	103	2,500	4,211
– later than one year and not later than five years	3,384	192	1,300	4,876
– later than five years	700	44	–	744
Total	5,692	339	3,800	9,831

31.3 Contingent liabilities

As aforementioned in Note 20, the tariffs for the services provided by the Group are subject to regulations by various government authorities. In 2008, the NDRC investigated the compliance with tariffs regulations of several branches of CUCL and China Netcom (Group) Company Limited (which merged with CUCL on 1 January 2009). Based on management's assessment and continuous discussions with MIIT and NDRC, management considered that the Group complied with the regulations issued by the relevant government authorities, and the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 30 June 2011 and 31 December 2010.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

32. EVENTS AFTER THE REPORTING PERIOD

On 19 August 2011, CUCL announced that it would launch the issue of tranche one of 2011 commercial paper in an amount of RMB15 billion on 24 August 2011.

33. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 24 August 2011.

Report on Review of Interim Financial Information

To the Board of Directors of China Unicom (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 52, which comprises the condensed consolidated interim balance sheet of China Unicom (Hong Kong) Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2011 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof, and to be in compliance with either International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants, depending on whether the issuer’s annual financial statements are prepared in accordance with International Financial Reporting Standards (“IFRSs”) or Hong Kong Financial Reporting Standards (“HKFRSs”) respectively. As the annual financial statements of the Group are prepared in accordance with both IFRSs and HKFRSs, the directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with both IAS 34 and HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2011

Other Information

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 2011, 202,190,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.86% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 1,896,000 share options were held by the Directors and their associates as at 30 June 2011. 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 2011 are governed by the terms of the Share Option Scheme.

During the six months ended 30 June 2011, 2,544,000 options granted under the Share Option Scheme were exercised at an exercise price of HKD15.42 for each option.

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 Special Purpose Share Option Scheme provides the Company with a means to incentivise and retain the holders of share options (the “Netcom Options”) granted under the share option scheme adopted by China Netcom (the “Netcom Share Option Scheme”), who were middle to senior management staff of China Netcom and its subsidiaries, and to encourage them to contribute to increasing the value of the Company. The Special Purpose Share Option Scheme is valid and effective during the period commencing on 15 October 2008 and ending on 30 September 2014, being the date falling 10 years after the date on which the Netcom Share Option Scheme was adopted. The terms of the Special Purpose Share Option Scheme were amended on 26 May 2009. The principal terms of the Special Purpose Share Option Scheme are summarised below:

A. Grant of Special Unicom Options and Exercise Price

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

$$\begin{aligned} \text{Number of Special Unicom Options} &= X \times Y \\ \text{Exercise price of each Special Unicom Option} &= Z / X \end{aligned}$$

where:

- X** is the exchange ratio (the “Share Exchange Ratio”) of 1.508 shares in the Company for each China Netcom share cancelled under the Scheme;
- Y** is the number of outstanding Netcom Options held by an Eligible Participant as at 5:00 p.m. (Hong Kong time) on 14 October 2008 (the “Scheme Record Time”); and
- Z** is the exercise price of an outstanding Netcom Option held by an Eligible Participant at the Scheme Record Time.

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

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

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

B. Exercise of Special Unicom Options

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

- (i) Special Unicom Options granted to the Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the “2004 Netcom Options”) and held as at the Scheme Record Time (the “Special Purpose 2004 Unicom Options”) are effective from 15 October 2008 until 16 November 2012 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2012 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 4 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 2012 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised

by 5 December 2012 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 4 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 2011, 189,472,118 share options had been granted and remained valid under the Special Purpose Share Option Scheme, representing approximately 0.80% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 723,840 share options were held by a Director as at 30 June 2011. All of the share options granted and outstanding as at 30 June 2011 are governed by the terms of the Special Purpose Share Option Scheme.

During the six months ended 30 June 2011, no share option granted under the Special Purpose Share Option Scheme was exercised.

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

	Capacity and Nature	Date of Grant ⁴	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2011 ¹	Movement During the Period			No. of Options Outstanding as at 30 June 2011 ¹
					Granted ¹	Exercised ¹	Lapsed ¹	
Directors								
Chang Xiaobing (Chairman and CEO)	Beneficial owner (Personal)	21 December 2004	6.20	526,000	—	—	—	526,000
		15 February 2006	6.35	746,000	—	—	—	746,000
								1,272,000
Lu Yimin	—	—	—	—	—	—	—	—
Tong Jilu	Beneficial owner (Personal)	30 June 2001	15.42	292,000	—	292,000	—	—
		20 July 2004	5.92	92,000	—	—	—	92,000
		15 February 2006	6.35	460,000	—	—	—	460,000
	Beneficial owner (Spouse)	20 July 2004	5.92	32,000	—	—	—	32,000
		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	—	—	—	—	—	—	—	—
Timpson Chung Shui Ming	—	—	—	—	—	—	—	—
Cai Hongbin	—	—	—	—	—	—	—	—
Employees²		30 June 2001	15.42	4,058,000	—	2,252,000	1,806,000	—
		21 May 2003	4.30	8,956,000	—	—	—	8,956,000
		20 July 2004	5.92	40,900,000	—	—	—	40,900,000
		21 December 2004	6.20	128,000	—	—	—	128,000
		15 February 2006	6.35	150,310,000	—	—	—	150,310,000
		15 October 2008	5.57	99,818,810	—	—	—	99,818,810
		15 October 2008	8.26	88,929,468	—	—	—	88,929,468
								389,042,278 ³⁾
Total				396,012,118				391,662,118

Notes:

1. Each share option gives the holder the right to subscribe for one share.
2. The number of share options outstanding as at 1 January 2011 include a total of 686,894 share options held by Mr. Zuo Xunsheng, who resigned as an executive director on 30 March 2011, as beneficial owner (personal).
3. The share options outstanding as at 30 June 2011 include approximately 23,440,000 share options held by the option holders who were determined by the Board as "Transferred Personnel" under the applicable share option schemes due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring.
4. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Share Option Scheme:		
30 June 2001	15.42	30 June 2001 to 22 June 2011
21 May 2003	4.30	21 May 2004 to 20 May 2012 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2012 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2012 (in respect of the remaining 30% of the options granted)
20 July 2004	5.92	20 July 2005 to 19 July 2012 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2012 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2012 (in respect of the remaining 30% of the options granted)
21 December 2004	6.20	21 December 2005 to 20 December 2012 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2012 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2012 (in respect of the remaining 30% of the options granted)
15 February 2006	6.35	15 February 2008 to 14 February 2013 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2013 (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 2012 (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 2012 (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 2012 (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 2012 (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 2012 (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 2012 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2010 to 5 December 2011)

* In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" continued to be in force, the Board further extended the exercise periods of certain share options by one year in each of March 2010 and March 2011 under the relevant terms of the Share Option Scheme. As at 30 June 2011, approximately 23,440,000 share options held by Transferred Personnel (as discussed in Note 3 above) remained valid.

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

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

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

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

As at 30 June 2011, 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 Total Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	400,000	0.0017%
Timpson Chung Shui Ming	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 2011 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 2011 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 2011, 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 2011:

	Ordinary Shares Held		Percentage of Total Issued Shares
	Directly	Indirectly	
(i) China United Network Communications Group Company Limited ("Unicom Group") ^{1,2}	—	16,959,075,926	71.97%
(ii) China United Network Communications Limited ("Unicom A Share Company") ¹	—	9,725,000,020	41.27%
(iii) China Unicom (BVI) Limited ("Unicom BVI") ¹	9,725,000,020	—	41.27%
(iv) China Netcom Group Corporation (BVI) Limited ("Netcom BVI") ^{2,3}	7,008,353,115	225,722,791	30.70%
(v) Telefónica S.A. ("Telefónica") ⁴	—	2,122,561,708	9.01%
(vi) Telefónica Internacional S.A.U. ⁴	2,122,561,708	—	9.01%

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. Netcom BVI is a wholly-owned subsidiary of Unicom Group. In accordance with the SFO, the interests of Netcom BVI are deemed to be, and have therefore been included in, the interests of Unicom Group.
3. Netcom BVI holds 7,008,353,115 shares (representing 29.74% of the total issued shares) of the Company directly. In addition, Netcom BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.96% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.
4. Telefónica Internacional S.A.U. is a wholly-owned subsidiary of Telefónica. In accordance with the SFO, the interests of Telefónica Internacional S.A.U are deemed to be, and have therefore been included in, the interests of Telefónica.

Apart from the foregoing, as at 30 June 2011, 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 2011 will be paid.

CHARGE ON ASSETS

As at 30 June 2011, no property, plant and equipment was pledged to banks as loan security (31 December 2010: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

BOARD OF DIRECTORS

The directors during the period were:

Executive Directors:

Chang Xiaobing (Chairman and CEO)
Lu Yimin
Tong Jilu
Li Fushen (appointed on 30 March 2011)
Zuo Xunsheng (resigned on 30 March 2011)

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

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

CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of some of the Directors since the publication of the Company's 2010 annual report:

- Mr. Chang Xiaobing was appointed as a director of Telefónica.
- Mr. Li Fushen was appointed as a director of Unicom A Share Company.
- Mr. Cheung Wing Lam Linus retired as an independent non-executive director of Taikang Life Insurance Company Limited and the President of the Chartered Institute of Marketing (Hong Kong Region).
- Mr. Timpson Chung Shui Ming resigned as the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong.
- Mr. Cai Hongbin resigned as an Associate Director of Center of Poverty Research at Peking University and an independent director of Beijing Venustech Inc..
- Mr. Cai Hongbin was appointed as Chairman of the Nomination Committee, with an additional annual fee of HKD40,000. Each of Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming was appointed as a member of the Nomination Committee. Except Mr. Chang Xiaobing, each member of the Nomination Committee has an additional annual fee of HKD20,000.
- With effect from 1 January 2011, the annual remuneration of Mr. Chang Xiaobing, Mr. Lu Yimin, Mr. Tong Jilu and Mr. Li Fushen has been adjusted. The adjusted annual remuneration for each of Mr. Chang Xiaobing, Mr. Lu Yimin, Mr. Tong Jilu and Mr. Li Fushen will be approximately RMB950,000, RMB950,000, RMB850,000 and RMB850,000, respectively, which includes an approximate discretionary bonus.

AUDIT COMMITTEE

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

The major responsibilities of the Audit Committee include: 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; and reviewing the reports on the internal control procedures of the Company. The Audit Committee meets at least four times each year, and assists the Board in its review of the financial statements to ensure effective internal control and efficient audit.

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 2011.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Timpson Chung Shui Ming 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 proposed by the management, remuneration packages of directors and senior management, as well as 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. The Remuneration Committee meets at least once a year.

NOMINATION COMMITTEE

The Nomination Committee comprises Mr. Cai Hongbin, Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming. Except Mr. Chang Xiaobing, who is the Chairman and CEO of the Company, each of Mr. Cai Hongbin, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming 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, number of members and composition of the Board and making recommendations to the Board; identifying individuals suitably qualified to become Board members and providing its opinion to the Board; making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors; providing its opinion to the Board on candidates nominated by the CEO to become senior management personnel of the Company and on changes to senior management personnel of the Company; and assessing the independence of the independent non-executive directors of the Company. The Nomination Committee meets where appropriate.

CORPORATE GOVERNANCE

1. Compliance with Code of Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Code of Corporate Governance Practices (the “Code Provision”) as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2011 except the following:

- (a) Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The Board understands that the principle of Code Provision A.2.1 is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority.

Mr. Chang Xiaobing serves as Chairman and CEO of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Chang Xiaobing is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

The Board believes that at the present stage, Mr. Chang Xiaobing and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities. These arrangements also facilitate the formulation and implementation of the Company’s strategies in a more effective manner so as to support the effective development of the Company’s business.

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

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 2011, and all of the Directors have confirmed such compliance.

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

Compliance with the requirements under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 has been an area of emphasis for the Company. The relevant section of the Act requires the management of non-U.S. issuers with equity securities listed in the U.S. securities market to issue reports and representations as to internal control over financial reporting.

The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting as at 31 December 2010. The management's assessment report was included in the Company's annual report on Form 20-F for the year ended 31 December 2010, as filed with the United States Securities and Exchange Commission on 26 May 2011.

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

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Hong Kong Companies Ordinance, as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. 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 Internet website (www.chinaunicom.com.hk) 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 2010 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2011, the Group had approximately 215,300 employees, 170 employees and 50 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 91,500 temporary staff in Mainland China. For the six months ended 30 June 2011, employee benefit expenses were approximately RMB12.52 billion (for the six months ended 30 June 2010: RMB11.57 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.

AGREEMENT TO ENHANCE THE STRATEGIC ALLIANCE WITH TELEFÓNICA

On 23 January 2011, the Company and Telefónica entered into an Agreement to Enhance the Strategic Alliance (the “Agreement to Enhance the Strategic Alliance”).

Pursuant to the Agreement to Enhance the Strategic Alliance, the Company acquired from Telefónica 21,827,499 ordinary shares of Euro1.00 each in the capital of Telefónica for an aggregate purchase price of Euro374,559,882.84 on 25 January 2011, and Telefónica agreed to purchase ordinary shares of HKD0.10 each in the capital of the Company for the aggregate consideration of USD500,000,000 through acquisitions from third parties within nine months after the date of the signing of the Agreement to Enhance the Strategic Alliance.

Under the Agreement to Enhance the Strategic Alliance, the Company and Telefónica agreed to enhance their existing strategic alliance and to deepen their cooperation in procurement, mobile service platforms, service to multinational customers, wholesale carriers, roaming, technology/ research and development, international business development, cooperation and the sharing of best practices. Furthermore, Mr. Chang Xiaobing was appointed as a director to the Board of Telefónica in May 2011 pursuant to the Agreement to Enhance the Strategic Alliance.

Please refer to the Company’s announcement dated 23 January 2011 for details.

FORWARD-LOOKING STATEMENTS

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

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

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

- changes in the regulatory regime and policies for the PRC telecommunications industry, including, without limitation, changes in the regulatory policies of the Ministry of Industry and Information Technology, or the MIIT (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;

Other Information

- 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;
- effects of the Company's restructuring and integration following the completion of the Company's merger with China Netcom;
- effects of the Company's discontinuation of the personal handyphone system, business in response to the MIIT's request;
- effects of the Company's acquisition from its parent companies of certain telecommunications business and assets, including the fixed-line business in 21 provinces in southern China, in January 2009;
- changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans;
- 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; and
- the recovery from the recent global economic downturn inside and outside the PRC.

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

By Order of the Board

Chu Ka Yee

Company Secretary

Hong Kong, 24 August 2011