CHINA UNICOM LIMITED
Incorporated in Hong Kong with limited liability under the Companies Ordinance

Connecting you freely

Interim Report 2006

Stock Code: 0762

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Contents

In the first half of 2006, the Company continued to focus on the transformation of its business model. By driving harder to expand the market, optimizing the use of capital expenditure and striving to improve overall profitability, as well as strengthening internal controls and taking a proactive approach to international cooperation, the Company ensured solid operating and financial performance.

For the first six months of 2006, the Company achieved steady revenue growth. Total revenue reached RMB46.77 billion, an increase of 8.2% over the same period last year. Revenue from services grew by 6.9% to RMB44.74 billion. Of the service revenue, the GSM business accounted for RMB29.36 billion, the CDMA business, for RMB13.74 billion and long distance, data and Internet businesses, for RMB1.64 billion.

Profit before income tax reached RMB4.07 billion in the first six months of 2006, an increase of 19.9% over the same period last year. Profit before income tax from the GSM business was RMB3.75 billion and from the CDMA business was RMB0.29 billion. The Company's profit for the period grew by 20.2% over the same period last year, to RMB2.80 billion. Earnings per share was RMB0.223. There was a further increase in EBITDA[1], to RMB15.49 billion, while the EBITDA margin was 33.1%, up 0.7 percentage point over the same period last year. Free cash flow[2] was RMB9.97 billion.

To ensure effective development, the Company focused on quantity and quality, as well as expansion and maintenance of its customer base. The number of GSM subscribers continued to grow in the first half of 2006 and the CDMA business has been profitable. The long distance, data and Internet businesses increased profitability in the first half of 2006. As at 30 June 2006, the Company had a total of 135.087 million cellular subscribers, a net increase of 7.293 million subscribers in the first half of the year. Revenue from GSM business grew by 14.5% over the same period last year, while the EBITDA margin for long distance, data and Internet businesses increased 13.1 percentage points over the same period last year.

The Company's value-added services also achieved robust growth for the first half of 2006. Much of this growth resulted from an increased emphasis on market differentiation, based on a restructured product mix and additional business promotions. For value-added services, key focus areas were cross-industry collaboration with major corporations such as Time Warner and enhanced controls over the operations and co-operation management of value-added business. Revenue from wireless value-added services increased by 49.0% in the first half of 2006, compared with the same period last year. The proportion of revenues generated from wireless value-added services accounted for 18.6% of cellular service revenue in the first half of 2006.

Note 1: EBITDA represents profit for the period before interest income, finance costs, other gains-net, income tax expenses, depreciation and amortization, and minority interest.

Note 2: Free cash flow represents net cash generated from operating activities minus capital expenditure.

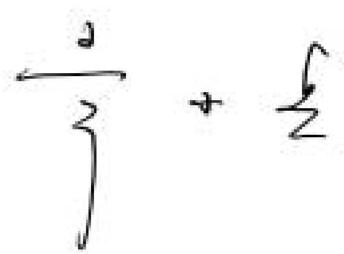
Comprehensive brand marketing strategies were an important priority. The Company gave its corporate logo a face-lift in March, with red as the key colour tone. Four customer brands - "Worldwind" "U-Power" "Ruyi Tong" and "Unicom Horizon" - were developed under the China Unicom umbrella, as were such business and service brands as "uni", "Unicom Commerce" and "Unicom 10010". Further integration of products, tariffs, distribution channels and handsets management, based on brand mix, has been carried out, which enhanced the Company's overall marketing capabilities. In addition, a service system focusing on different customer groups was implemented to streamline service procedures and improve service quality.

Overall management standards were raised, with the regulation of operating activities through strengthening internal controls and the further implementation of processes level controls and risk assessment measures. Greater emphasis was placed on certain key activities, including stringent planning for investment and project construction management. Budget management objectives have been achieved and financial reporting procedures have been further improved. A number of market-oriented changes to the Company's organizational structure have had a positive impact on driving operating efficiency.

International cooperation continues to play a vital strategic role. The Company entered into a Strategic Alliance Framework Agreement with SK Telecom ("SKT") of Korea in June and issued convertible bonds in an aggregated principal amount of US$1 billion to SKT in July. This alliance covers cooperation in six fields - CDMA handsets, value-added services, marketing, value-added business platforms, IT infrastructure and networks. In August, the Macau SAR granted the Company's wholly-owned subsidiary a business licence based on the CDMA2000 1X technology so as to provide mobile telecommunications businesses in the territory.

In the second half of this year, the Company will continue to implement its rational, practical and active development strategies and effectively promote its businesses. The Company will put equal focus on expanding customer base and maintaining existing users of its GSM business, with a systematic approach for customer maintenance and retention, to achieve reasonable growth in revenue and profitability. Further attention will be paid to handset supply and channel development and control, to accelerate business expansion of its CDMA business, with the objective of ensuring continuing profit improvement. Efforts will also be made to accelerate the upgrading of GPRS in major cities nationwide and to develop industry applications of CDMA 1X. The Company will restructure the product mix of its long distance, data and Internet businesses and promote value-added services for data and long distance businesses, to generate higher revenues and raise efficiency. Branding strategies will be further introduced to strengthen our sales and marketing activities. More attention will be paid on the continuous implementation of internal controls and enhancement of management standards.

Finally, on behalf of the Board, I would like to convey my grateful thanks to our shareholders and to the wider community for their generous support. I would also like to express heartfelt gratitude to all staff for their hard work and commitment.



Chang Xiaobing
Chairman and Chief Executive Officer

Hong Kong, 24 August 2006

In the first half of 2006, the Company actively pursued the transformation of business strategies, strengthened the market-oriented approach, reinforced the establishment of internal control and effectively accelerated our business development, helping the Company to achieve a steady and healthy growth.

I. Financial Overview

In the first half of 2006, operating revenue of the Company sustained a stable upward growth, and reached RMB46.77 billion, representing an increase of 8.2% from the same period last year. Service revenue was RMB44.74 billion, representing an increase of 6.9% from the same period last year. Among these businesses, GSM Cellular Business accounted for the service revenue of RMB29.36 billion; CDMA Cellular Business achieved a service revenue of RMB13.74 billion. Service revenue from long distance, data and Internet businesses was RMB1.64 billion.

In the first half of 2006, total costs and expenses of the Company was RMB42.7 billion, representing an increase of 7.2% from the same period last year, which is lower than the growth rate of service revenue.

In the first half of the year, profit before income tax was RMB4.07 billion, representing an increase of 19.9% as compared to same period last year. Among the total, profit before income tax for GSM Business was RMB3.75 billion; that for CDMA Business was RMB0.29 billion; and that for long distance, data and Internet business was RMB0.14 billion. Profit for the period of the Company in the first half of the year was RMB2.80 billion, representing an increase of 20.2% from the same period last year. Earnings per share for the first half of the year was RMB0.223.

In the first half of 2006, EBITDA was RMB15.49 billion, representing an increase of 10.7% from the same period last year. EBITDA margin was 33.1%, increased by 0.7 percentage points when compared to the same period last year. EBITDA margin of GSM Cellular Business was 45.0%. In the first half of the year, capital expenditures totaled RMB8.66 billion, and free cash flow further increased to RMB9.97 billion.

As at 30 June 2006, liabilities-to-assets ratio reduced from 46.5% as of 31 December 2005 to 44.9%, while debt-to-capitalization ratio reduced from 31.2% as of 31 December 2005 to 25.1%. The capital structure of the Company has improved.

II. Business Overview

1. Cellular Business

As of 30 June 2006, the total number of cellular subscribers reached 135.087 million, a net increase of 7.293 million in the first half of 2006. The market share of total subscribers in the service area of the Company maintained at 32.1%.

As of 30 June 2006, the total number of GSM subscribers was 100.552 million, with a net addition of 5.480 million in the first half of 2006. The average minutes of usage (MOU) per subscriber per month for GSM business were 230.7 minutes, representing an increase of 35.7 minutes from 195.0 minutes in the first half of last year. The average revenue per user (ARPU) was RMB50.0, representing an increase of RMB0.9 from RMB49.1 in the first half of last year. The GSM monthly average churn rate was 2.68% in the first half of this year.

As of 30 June 2006, the total number of CDMA subscribers was 34.534 million, with a net addition of 1.812 million in the first half of 2006. The average MOU per subscriber per month for CDMA business were 272.8 minutes, representing a decrease of 8.0 minutes from 280.8 minutes in the first half of last year. The APRU was RMB68.1, representing a decrease of RMB10.0 from RMB78.1 in the first half of last year. The CDMA monthly average churn rate was 1.49% in the first half of this year.

2. Wireless Value-added Business

SMS service continued to grow rapidly. In the first half of 2006, total SMS messages reached 35.72 billion, representing an increase of 41.1% over the same period last year. Of which, GSM SMS volume reached 27.38 billion, representing an increase of 50.5% over the same period last year. CDMA SMS volume was 8.34 billion messages, representing an increase of 17.1% over the same period last year.

"Cool Ringtone" service grew rapidly. As of 30 June 2006, total "Cool Ringtone" subscribers reached 31.977 million, with a net addition of 10.028 million in the first half of 2006. Of which, GSM "Cool Ringtone" subscriber reached 25.105 million and CDMA "Cool Ringtone" subscribers reached 6.872 million.

CDMA 1X wireless data service maintained steady growth. As of 30 June 2006, the subscribers of CDMA 1X wireless data service reached 17.868 million, its share of total CDMA subscribers increased to 51.7% from 46.0% at the end of 2005.

During the first half of 2006, total revenue of wireless value-added services amounted to RMB 8.0 billion, representing an increase of 49.0% compared with the same period last year, accounting for 18.6% of cellular service revenue.

3. Long Distance, Data and Internet Businesses

In the first half of 2006, the Company enhanced business structure of long distance, data and Internet businesses, implemented profit-oriented marketing practice, and terminated certain non-profitable services to boost return on investment.

In the first half of 2006, outgoing domestic and international long distance calls totalled 12.07 billion minutes, representing a decrease of 6.8% compared with the same period last year. Of which, PSTN outgoing long distance calls amounted to 5.34 billion minutes, representing a decrease of 3.6% compared with the same period last year whereas IP outgoing calls reached 6.73 billion minutes, representing a decrease of 9.1% compared with the same period last year. Incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, amounted to 1.24 billion minutes, representing a decrease of 7.5% compared with the same period last year.

As of 30 June 2006, total bandwidth leased out under the leased line business was 53,000 x 2Mbps, and total bandwidth leased out under Asynchronous Transfer Mode (“ATM”) and Frame Relay (“FR”) businesses amounted to 7,739 x 2Mbps. The terminals of “Uni-Video” broadband video-telephony service reached 430,000. The Internet broadband subscribers reached 1.354 million.

Unaudited Condensed Consolidated Interim Balance Sheet

As of 30 June 2006

(All amounts in Renminbi ("RMB") thousands)

	Note	Unaudited 30 June 2006	Audited 31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	**113,803,021**	116,056,432
Goodwill		**3,143,983**	3,143,983
Other assets	6	**6,597,635**	7,818,583
Deferred income tax assets	7	**636,415**	335,234
		124,181,054	127,354,232
Current assets			
Inventories	8	**2,194,842**	2,107,812
Accounts receivable, net	9	**4,139,876**	4,548,429
Prepayments and other current assets	10	**2,088,095**	2,342,467
Amounts due from Domestic Carriers	21.2	**219,295**	138,485
Amounts due from related parties	21.1	**134,352**	384,531
Short-term bank deposits		**519,714**	282,457
Cash and cash equivalents		**7,753,491**	5,471,576
		17,049,665	15,275,757
Total assets		**141,230,719**	142,629,989
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	11	**1,334,846**	1,333,621
Share premium	11	**52,667,127**	52,601,014
Reserves		**2,886,602**	2,827,331
Retained profits			
- Proposed 2005 final dividend	18	**—**	1,383,169
- Other		**20,937,631**	18,139,210
		77,826,206	76,284,345
Minority interest		**4,285**	2,734
Total equity		**77,830,491**	76,287,079

As of 30 June 2006
(All amounts in RMB thousands)

	Note	Unaudited 30 June 2006	Audited 31 December 2005
LIABILITIES			
Non-current liabilities			
Long-term bank loans	12	**6,033,540**	11,981,518
Obligations under finance leases		**26,113**	145,367
Deferred income tax liabilities	7	**5,231**	5,613
Deferred revenue		**2,890,026**	3,348,232
		8,954,910	15,480,730
Current liabilities			
Payables and accrued liabilities	13	**22,982,809**	18,526,628
Taxes payable	7	**1,317,971**	1,016,128
Amounts due to Domestic Carriers	21.2	**969,478**	822,006
Amounts due to Unicom Group	21.1	**8,074**	38,094
Amounts due to related parties	21.1	**192,307**	116,621
Short-term bonds	14	**9,974,750**	9,865,900
Short-term bank loans	15	**2,235,000**	7,024,358
Current portion of long-term bank loans	12	**7,483,270**	5,145,190
Current portion of obligations under finance leases		**281,739**	420,631
Advances from customers		**8,275,301**	7,886,624
Dividends payable	18	**724,619**	—
		54,445,318	50,862,180
Total liabilities		**63,400,228**	66,342,910
Total equity and liabilities		**141,230,719**	142,629,989
Net current liabilities		**(37,395,653)**	(35,586,423)
Total assets less current liabilities		**86,785,401**	91,767,809

The notes on pages 14 to 41 form an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2006
(All amounts in RMB thousands, except per share data)

	Note	Unaudited Six months ended 30 June **2006**	2005
Revenue (Turnover)			
GSM Business	4, 16, 21	**29,360,695**	25,636,097
CDMA Business	4, 16, 21	**13,737,126**	13,775,908
Data and Internet Business	4, 16, 21	**1,145,514**	1,599,517
Long Distance Business	4, 16, 21	**500,648**	845,684
Total service revenue		**44,743,983**	41,857,206
Sales of telecommunications products	4, 16, 21	**2,030,036**	1,386,717
Total revenue	4, 16, 21	**46,774,019**	43,243,923
Leased lines and network capacities	17, 21	**(4,401,149)**	(4,424,469)
Interconnection charges	21	**(4,571,458)**	(4,098,765)
Depreciation and amortization	17	**(11,056,494)**	(9,972,014)
Personnel	17	**(3,319,867)**	(2,620,761)
Selling and marketing	17, 21	**(10,160,552)**	(10,590,298)
General, administrative and other expenses	17, 21	**(6,424,511)**	(5,704,501)
Cost of telecommunications products sold	17, 21	**(2,406,466)**	(1,805,895)
Finance costs	17,21	**(425,527)**	(688,590)
Interest income	21	**53,533**	40,089
Other gains – net		**4,272**	12,017
Profit before income tax		**4,065,800**	3,390,736
Income tax expenses	7	**(1,264,851)**	(1,061,696)
Profit for the period		**2,800,949**	2,329,040
Attributable to:			
Shareholders of the Company		**2,799,398**	2,329,040
Minority interest		**1,551**	—
		2,800,949	2,329,040
Basic earnings per share (RMB)	20	**0.223**	0.185
Diluted earnings per share (RMB)	20	**0.222**	0.184

The notes on pages 14 to 41 form 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 2006
(All amounts in RMB thousands)

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium	Employee share-based compensa-tion reserve	Revaluation reserve	Statutory reserve	Retained profits	Total	Minority interest	Total equity
Balance at 1 January 2005	1,332,487	52,546,294	110,664	176,853	1,971,778	16,311,590	72,449,666	—	72,449,666
Profit for the period	—	—	—	—	—	2,329,040	2,329,040	—	2,329,040
Employee share option scheme:									
- Value of employee services (Note 17)	—	—	74,564	—	—	—	74,564	—	74,564
- Recognition of share issued on exercise of options (Notes 11 & 19)	657	28,939	—	—	—	—	29,596	—	29,596
Dividends related to 2004 (Note 18)	—	—	—	—	—	(1,256,924)	(1,256,924)	—	(1,256,924)
Balance at 30 June 2005	1,333,144	52,575,233	185,228	176,853	1,971,778	17,383,706	73,625,942	—	73,625,942
Balance at 1 January 2006	1,333,621	52,601,014	215,361	176,853	2,435,117	19,522,379	76,284,345	2,734	76,287,079
Profit for the period	—	—	—	—	—	2,799,398	2,799,398	1,551	2,800,949
Employee share option scheme:									
- Value of employee services (Note 17)	—	—	68,396	—	—	—	68,396	—	68,396
- Recognition of share issued on exercise of options (Notes 11 & 19)	1,225	66,113	(9,125)	—	—	—	58,213	—	58,213
Dividends related to 2005 (Note 18)	—	—	—	—	—	(1,384,146)	(1,384,146)	—	(1,384,146)
Balance at 30 June 2006	1,334,846	52,667,127	274,632	176,853	2,435,117	20,937,631	77,826,206	4,285	77,830,491

The notes on pages 14 to 41 form an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2006
(All amounts in RMB thousands)

	Unaudited	
	Six months ended 30 June	
	2006	2005
Net cash generated from operating activities	**18,631,302**	14,984,997
Net cash used in investing activities	**(7,418,638)**	(8,514,598)
Net cash used in financing activities	**(8,930,749)**	(4,664,322)
Net increase in cash and cash equivalents	**2,281,915**	1,806,077
Cash and cash equivalents, beginning of period	**5,471,576**	4,629,553
Cash and cash equivalents, end of period	**7,753,491**	6,435,630
Analysis of the balances of cash and cash equivalents:		
Cash balances	**4,848**	7,182
Bank balances	**7,748,643**	6,428,448
	7,753,491	6,435,630

The notes on pages 14 to 41 form an integral part of this unaudited condensed consolidated interim financial information.

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activities of the Company are investment holding and the Company's subsidiaries are engaged in the provision of GSM and CDMA cellular, long distance, data and Internet services in the PRC. The GSM and CDMA businesses are hereinafter collectively referred to as the "Cellular Business". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of its registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

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

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). The majority of the equity interests in Unicom BVI is owned by China United Telecommunications Corporation Limited (a 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 China United Telecommunications Corporation Limited is owned by China United Telecommunications Corporation (a state owned enterprise established in the PRC, hereinafter referred as "Unicom Group"). 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 2006 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting". The unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 and 2005 have not been audited by the auditors, and the financial statements for the year ended 31 December 2005 are extracted from the audited financial statements as contained in the 2005 Annual Report. The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those used in preparing the annual financial statements for the year ended 31 December 2005. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005. The Group's policies on financial risk management, including the management of credit risk, liquidity risk, cash flow and fair value interest rate risk and foreign exchange risk, are set out in the 2005 Annual Report.

As at 30 June 2006, the current liabilities of the Group had exceeded the current assets by approximately RMB37.40 billion (31 December 2005: RMB35.59 billion). This was mainly attributable to the use of short-term bonds to repay long-term bank loans. Taking into account of available financing facilities and continuous net cash inflows from operating activities, the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2006 has been prepared under the going concern basis.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 December 2006:

- Amendment to HKAS 19, Amendment "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1 January 2006. The Group has already complied with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HKFRS-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This interpretation did not have material impact on the amount of the expenses already recognised by the Group;
- HKFRS-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not expected to have a material impact on the Group's results of operations and financial position;

3. ACCOUNTING POLICIES (continued)

- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the group.

4. SEGMENT INFORMATION

The Group comprises four business segments based on the various types of telecommunications services provided to customers in the PRC. The major business segments operated by the Group are classified as below:

- GSM Business — the provision of GSM telephone and related services;
- CDMA Business — the provision of CDMA telephone and related services, through a leasing arrangement for CDMA network capacities from Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon");
- Data and Internet Business — the provision of Internet, domestic and international data and other related services; and
- Long Distance Business — the provision of domestic and international long distance and other related services.

The Group's primary measure of segment results is based on segment profit or loss before taxation. Unallocated costs primarily represent corporate expenses and income tax expenses whilst unallocated income represents interest income that cannot be identifiable to different operating segments.

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.1 Business Segments

	Unaudited Six months ended 30 June 2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover)							
Usage fee	16,992,109	7,576,717	858,069	49,416	—		25,476,311
Monthly fee	3,748,042	2,592,903	—	—	—		6,340,945
Interconnection revenue	2,268,184	797,133	41,240	201,991	—		3,308,548
Leased lines rental	—	—	234,852	247,389	—		482,241
Value-added services revenue	5,485,477	2,518,453	—	—	—		8,003,930
Other revenue	866,883	251,920	11,353	1,852	—		1,132,008
Total services revenue	29,360,695	13,737,126	1,145,514	500,648	—		44,743,983
Sales of telecommunications products	4,096	2,018,926	7,002	12	—		2,030,036
Total revenue from external customers	29,364,791	15,756,052	1,152,516	500,660	—		46,774,019
Intersegment revenue	—	—	1,507,975	759,628	—	(2,267,603)	—
Total revenue	29,364,791	15,756,052	2,660,491	1,260,288	—	(2,267,603)	46,774,019
Leased lines and network capacities	(113,194)	(4,106,360)	(146,495)	(35,100)	—		(4,401,149)
Interconnection charges	(4,459,072)	(1,712,973)	(235,635)	(431,381)	—	2,267,603	(4,571,458)
Depreciation and amortization	(9,185,954)	(331,709)	(1,166,743)	(371,799)	(289)		(11,056,494)
Personnel	(2,122,820)	(726,756)	(244,300)	(138,336)	(87,655)		(3,319,867)
Selling and marketing	(4,788,429)	(4,905,287)	(348,196)	(118,604)	(36)		(10,160,552)
General, administrative and other expenses	(4,564,071)	(1,364,944)	(378,778)	(104,752)	(11,966)		(6,424,511)
Cost of telecommunications products sold	(95,453)	(2,293,807)	(17,114)	(92)	—		(2,406,466)
Finance costs	(327,878)	(22,882)	(15,604)	(30,102)	(175,603)	146,542	(425,527)
Interest income	33,860	2,372	3,885	483	159,475	(146,542)	53,533
Other gains (loss) - net	7,732	989	(454)	(4,010)	15		4,272
Segment profit (loss) before income tax	3,749,512	294,695	111,057	26,595	(116,059)		4,065,800
Income tax expenses							(1,264,851)
Profit for the period							2,800,949
Attributable to:							
Shareholders of the Company							2,799,398
Minority interest							1,551
							2,800,949
Other information:							
Provision for doubtful debts	497,209	267,856	61,468	21,499	—		848,032
Capital expenditures for segment assets (a)	4,252,313	—	1,393,184	673,913	2,342,710		8,662,120

	Unaudited As at 30 June 2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	104,668,530	4,923,846	8,520,463	16,867,124	56,412,551	(50,161,795)	141,230,719
Total segment liabilities	44,704,928	6,050,417	2,924,030	3,981,349	5,739,504		63,400,228

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.1 Business Segments (continued)

	Unaudited Six months ended 30 June 2005						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover)							
Usage fee	16,245,846	8,592,933	1,356,607	350,493	—		26,545,879
Monthly fee	3,395,816	2,492,193	—	—	—		5,888,009
Interconnection revenue	1,579,674	649,846	56,200	252,081	—		2,537,801
Leased lines rental	—	—	181,418	242,401	—		423,819
Value-added services revenue	3,555,350	1,815,824	—	—	—		5,371,174
Other revenue	859,411	225,112	5,292	709	—		1,090,524
Total services revenue	25,636,097	13,775,908	1,599,517	845,684	—		41,857,206
Sales of telecommunications products	1,234	1,377,783	6,579	1,121	—		1,386,717
Total revenue from external customers	25,637,331	15,153,691	1,606,096	846,805	—		43,243,923
Intersegment revenue	—	—	1,233,782	631,642	—	(1,865,424)	—
Total revenue	25,637,331	15,153,691	2,839,878	1,478,447	—	(1,865,424)	43,243,923
Leased lines and network capacities	(147,110)	(4,023,891)	(217,407)	(36,061)	—		(4,424,469)
Interconnection charges	(3,443,806)	(1,658,688)	(332,825)	(528,870)	—	1,865,424	(4,098,765)
Depreciation and amortization	(8,492,612)	(281,616)	(916,333)	(280,637)	(816)		(9,972,014)
Personnel	(1,565,916)	(586,438)	(229,967)	(147,971)	(90,469)		(2,620,761)
Selling and marketing	(3,630,471)	(6,051,806)	(723,562)	(184,459)	—		(10,590,298)
General, administrative and other expenses	(3,854,436)	(1,262,160)	(436,181)	(135,794)	(15,930)		(5,704,501)
Cost of telecommunications products sold	(38,170)	(1,751,871)	(15,665)	(189)	—		(1,805,895)
Finance costs	(623,665)	(23,788)	(5,107)	(31,420)	(96,560)	91,950	(688,590)
Interest income	27,182	2,118	922	1,844	99,973	(91,950)	40,089
Other gains (loss) - net	13,586	2,328	(355)	(107)	(3,435)		12,017
Segment profit (loss) before income tax	3,881,913	(482,121)	(36,602)	134,783	(107,237)		3,390,736
Income tax expenses							(1,061,696)
Profit for the period							2,329,040
Attributable to:							
Shareholders of the Company							2,329,040
Minority interest							—
							2,329,040
Other information:							
Provision for doubtful debts	446,070	260,970	78,031	25,637	—		810,708
Capital expenditures for segment assets (a)	2,975,127	—	913,547	733,291	2,461,316		7,083,281

	Audited As at 31 December 2005						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	107,723,037	4,087,906	7,518,912	17,794,349	55,667,580	(50,161,795)	142,629,989
Total segment liabilities	45,706,440	5,620,722	2,519,018	4,973,134	7,523,596		66,342,910

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

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.2 Geographical Segments

The customers of the Group's services are mainly in mainland China. There is no other geographical segment with segment revenue from external customers equal to or greater than 10% of total revenue.

In addition, although the Group has its corporate headquarter in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment and other assets) are situated in mainland China, as the Group's principal activities are conducted in mainland China. For the six months ended 30 June 2006 and 2005, substantially all capital expenditures were incurred to acquire assets located in mainland China. Less than 10% of the Group's assets and operations are located outside mainland China. Accordingly, no geographical segment information is presented.

5. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Six months ended 30 June						
	2006						2005
	Buildings	Telecommuni-cations equipment	Office furniture, fixtures and others	Leasehold improvements	Construction-in-progress	Total	Total
Cost or valuation:							
Beginning of period	17,809,350	144,752,704	8,370,669	1,120,171	18,826,688	190,879,582	173,835,655
Additions	207,105	21,161	209,580	190,024	8,034,250	8,662,120	7,414,377
Transfer from CIP	1,919,236	12,552,025	607,652	—	(15,078,913)	—	—
Disposals	(502)	(1,199,180)	(97,862)	(134,884)	—	(1,432,428)	(96,413)
End of period	19,935,189	156,126,710	9,090,039	1,175,311	11,782,025	198,109,274	181,153,619
Representing:							
At cost	17,564,416	156,126,710	9,090,039	1,175,311	11,782,025	195,738,501	178,782,846
At valuation	2,370,773	—	—	—	—	2,370,773	2,370,773
	19,935,189	156,126,710	9,090,039	1,175,311	11,782,025	198,109,274	181,153,619
Accumulated depreciation and impairment:							
Beginning of period	3,621,527	66,942,910	3,502,469	741,937	14,307	74,823,150	55,343,535
Charge for the period	290,056	9,699,885	736,203	111,313	—	10,837,457	9,742,948
Disposals	(176)	(1,133,759)	(85,535)	(134,884)	—	(1,354,354)	(66,080)
End of period	3,911,407	75,509,036	4,153,137	718,366	14,307	84,306,253	65,020,403
Net book value:							
End of period	16,023,782	80,617,674	4,936,902	456,945	11,767,718	113,803,021	116,133,216
Beginning of period	14,187,823	77,809,794	4,868,200	378,234	18,812,381	116,056,432	118,492,120

For the six months ended 30 June 2006, interest expense of approximately RMB224 million (for the six months ended 30 June 2005: RMB332 million) was capitalized to construction-in-progress.

(All amounts in RMB thousands unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Buildings of the Group were valued at 31 March 2000 by an independent property valuation firm in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus amounted to RMB177 million. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB4.40 million for the six months ended 30 June 2006 (for the six months ended 30 June 2005: RMB4.40 million). As of 30 June 2006, the carrying value of buildings would have been approximately RMB15,901 million (31 December 2005: RMB14,061 million) had they been stated at historical cost less accumulated depreciation. The directors considered the fair values of these buildings were not materially different from their carrying values as of 30 June 2006.

Telecommunications equipment held under finance leases represents wireless public phone equipment. As at 30 June 2006, net book value of wireless public phone equipment under finance leases amounted to approximately RMB249 million (31 December 2005: RMB354 million).

For the six months ended 30 June 2006, the Group recognised losses on disposal of property, plant and equipment amounting to approximately RMB63.78 million (for the six months ended 30 June 2005: gains of RMB1.44 million).

6. OTHER ASSETS

	Note	**Unaudited 30 June 2006**	Audited 31 December 2005
Direct incremental costs	(a)	**2,811,995**	3,191,853
Customer acquisition costs of contractual CDMA subscribers	(b)	**1,522,835**	2,416,224
Purchased software	(c)	**333,024**	276,803
Prepaid rental and leased line		**859,846**	858,661
Long-term prepayment for lease of land		**807,646**	696,913
Others	(c)	**262,289**	378,129
		6,597,635	7,818,583

(a) For the six months ended 30 June 2006, amortization of direct incremental costs for activating GSM and CDMA subscribers amounted to RMB884 million (for the six months ended 30 June 2005: RMB741 million), which had been included in selling and marketing expenses (Note 17).

(b) For the six months ended 30 June 2006, amortization of the deferred customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB2,391 million (for six months ended 30 June 2005: RMB3,124 million) (Note 17), which was recorded in "selling and marketing" expenses. As at 30 June 2006, the carrying amount of unamortized customer acquisition costs of contractual CDMA subscribers totalled approximately RMB1,904 million (31 December 2005: RMB2,944 million), with approximately RMB1,523 million (31 December 2005: RMB2,416 million) recorded in "other assets" (for contracts expiring over 1 year) and approximately RMB381 million (31 December 2005: RMB528 million) recorded in "prepayment and other current assets" (for contracts expiring within 1 year) (Note 10).

(c) For the six months ended 30 June 2006, the amortization of purchased software and others of other assets amounted to approximately RMB219 million (for the six months ended 30 June 2005: RMB229 million), which had been included in depreciation and amortization (Note 17).

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION

Provision for taxation represents:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Current income tax	**1,566,414**	1,365,355
Deferred taxation	**(301,563)**	(303,659)
	1,264,851	1,061,696

(a) The Company did not have any assessable income sourced from Hong Kong for the six months ended 30 June 2006 and 2005.

(b) China Unicom International Limited ("Unicom International", a subsidiary of the Company) assesses its income tax liability in Hong Kong using the tax rate of 17.5%. The income tax liability of Unicom International amounted to approximately RMB3.16 million for the six months ended 30 June 2006 (for the six months ended 30 June 2005: RMB0.33 million).

(c) China Unicom (Macau) Company Limited ("Unicom Macau", a subsidiary of the Company) assesses its income tax liability in Macau, using progressive tax rates from 3% to 12%. There is no Macau income tax liability of Unicom Macau for the six months ended 30 June 2006 and 2005 as there were no assessable profits for both periods.

(d) For the six months ended 30 June 2005, the income tax liabilities of China Unicom Corporation Limited ("CUCL") and Unicom New World Telecommunications Corporation Limited ("Unicom New World") resulting from their branches all over mainland China were centrally assessed in accordance with Foreign Investment Enterprises taxation requirements on a consolidated basis as two single entities in Beijing as approved by the relevant tax authority.

As the legal entity of Unicom New World was dissolved and the operation of Unicom New World was combined with CUCL in September 2005, the relevant income tax liabilities for the six months ended 30 June 2006 were centrally assessed on a consolidated basis as a single entity in Beijing as approved by the relevant tax authority.

(e) For the six months ended 30 June 2006, Unicom Huasheng Telecommunications Technology Company Limited ("Unicom Huasheng", a subsidiary of CUCL) and its branches are subject to tax at the standard enterprise income tax rate of 33% in mainland China. The income tax liabilities of Unicom Huasheng and its branches were assessed separately by relevant local tax authorities.

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION (continued)

(f) Various provincial/municipal branches of CUCL were granted the preferential treatment by relevant tax authorities to assess their enterprise income tax at rates of 30%, 15% or 10% in mainland China for the six months ended 30 June 2006 and 2005. The remaining provincial branches were assessed at the standard tax rate of 33%.

Reconciliation between applicable statutory tax rates and effective tax rate:

	Unaudited	
	Six months ended 30 June	
	2006	2005
PRC statutory tax rate of 33%	**33.0%**	33.0%
Non-deductible expenses	**1.9%**	1.5%
Non-taxable income		
– Connection fee	**(1.1%)**	(1.3%)
– Interest income	**(0.1%)**	(0.1%)
Impact of PRC preferential tax rates	**(2.6%)**	(1.8%)
Effective tax rate	**31.1%**	31.3%

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
The net deferred income tax assets after offsetting:		
– Beginning of the period	**335,234**	468,774
– Deferred tax credited to the income statement	**301,181**	305,824
– End of period	**636,415**	774,598
The deferred income tax liabilities that cannot be offset:		
– Beginning of the period	**(5,613)**	(3,262)
– Deferred tax credited (charged) to the income statement	**382**	(2,165)
– End of period	**(5,231)**	(5,427)

(All amounts in RMB thousands unless otherwise stated)

8. INVENTORIES

	Unaudited 30 June 2006	Audited 31 December 2005
Handsets	**1,287,169**	1,121,288
Telephone cards	**584,218**	592,490
Others	**323,455**	394,034
	2,194,842	2,107,812

9. ACCOUNTS RECEIVABLE, NET

	Unaudited 30 June 2006	Audited 31 December 2005
Accounts receivable for GSM services	**3,343,704**	4,021,887
Accounts receivable for CDMA services	**2,386,539**	2,648,504
Accounts receivable for Data and Internet services	**453,419**	522,579
Accounts receivable for Long Distance services	**381,959**	444,010
Sub-total	**6,565,621**	7,636,980
Less: Provision for doubtful debts for GSM services	**(1,388,847)**	(1,821,057)
Provision for doubtful debts for CDMA services	**(766,106)**	(954,185)
Provision for doubtful debts for Data and Internet services	**(201,463)**	(229,598)
Provision for doubtful debts for Long Distance services	**(69,329)**	(83,711)
	4,139,876	4,548,429

The aging analysis of accounts receivable is as follows:

	Unaudited 30 June 2006	Audited 31 December 2005
Within credit period	**2,779,959**	2,884,068
Within three months and over credit period	**1,085,788**	1,062,895
Three months to one year	**1,568,241**	1,636,529
More than one year	**1,131,633**	2,053,488
	6,565,621	7,636,980

The normal credit period granted by the Group is on average 30 days from the date of invoice.

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

(All amounts in RMB thousands unless otherwise stated)

9. ACCOUNTS RECEIVABLE, NET (continued)

Provision for doubtful debts is analyzed as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Balance, beginning of period	**3,088,551**	3,933,507
Provision for the period	**848,032**	810,708
Written-off during the period	**(1,510,838)**	(1,506,970)
Balance, end of period	**2,425,745**	3,237,245

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	Unaudited 30 June 2006	Audited 31 December 2005
Prepaid rental	**310,828**	322,243
Deposits and prepayments	**914,637**	973,698
Advances to employees	**236,527**	163,838
Customer acquisition costs of contractual CDMA subscribers (Note 6(b))	**380,751**	527,577
Others	**245,352**	355,111
	2,088,095	2,342,467

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

	Unaudited 30 June 2006	Audited 31 December 2005
Within one year	**2,036,359**	2,249,097
More than one year	**51,736**	93,370
	2,088,095	2,342,467

11. SHARE CAPITAL

	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
Authorized:		
30,000,000,000 ordinary shares of HK$0.1 each	**3,000,000**	3,000,000

	Number of shares ('000)	**Ordinary shares, par value of HK$0.1 each (HK$'000)**	**Share Capital (RMB'000)**	**Share premium (RMB'000)**	**Total (RMB'000)**
At 1 January 2005	12,563,492	1,256,349	1,332,487	52,546,294	53,878,781
Employee share option scheme					
– Recognition of shares issued on exercise of options (Note 19)	6,191	619	657	28,939	29,596
At 30 June 2005	12,569,683	1,256,968	1,333,144	52,575,233	53,908,377
At 1 January 2006	**12,574,265**	**1,257,426**	**1,333,621**	**52,601,014**	**53,934,635**
Employee share option scheme					
– Recognition of shares issued on exercise of options (Note 19)	**11,840**	**1,184**	**1,225**	**66,113**	**67,338**
At 30 June 2006	**12,586,105**	**1,258,610**	**1,334,846**	**52,667,127**	**54,001,973**

The total authorized number of ordinary shares is 30 billion shares (31 December 2005: 30 billion shares) with a par value of HK$0.1 per share (31 December 2005: HK$0.1 per share). All issued shares are fully paid.

(All amounts in RMB thousands unless otherwise stated)

12. LONG-TERM BANK LOANS

	Interest rates and final maturity	**Unaudited 30 June 2006**	Audited 31 December 2005
RMB denominated bank loans	Fixed interest rate ranging from 3.60% to 5.58% (for six months ended 30 June 2005: 3.60% to 5.58%) per annum with maturity through 2010 (31 December 2005: maturity through 2010) (a)		
– secured		**300,000**	755,000
– unsecured		**3,622,090**	6,687,468
		3,922,090	7,442,468
USD denominated bank loans	Floating interest rate of USD LIBOR plus interest margin of 0.28% to 0.44% (for six months ended 30 June 2005: 0.28% to 0.44%) per annum with maturity through 2010 (31 December 2005: maturity through 2010) (b)	**9,594,720**	9,684,240
Sub-total		**13,516,810**	17,126,708
Less: Current portion		**(7,483,270)**	(5,145,190)
		6,033,540	11,981,518

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

	Unaudited 30 June 2006	Audited 31 December 2005
Balances due:		
– not later than one year	**7,483,270**	5,145,190
– later than one year and not later than two years	**1,430,440**	9,639,408
– later than two years and not later than five years	**4,603,100**	2,342,110
	13,516,810	17,126,708
Less: Portion classified as current liabilities	**(7,483,270)**	(5,145,190)
	6,033,540	11,981,518

(All amounts in RMB thousands unless otherwise stated)

12. LONG-TERM BANK LOANS (continued)

(a) As at 30 June 2006, approximately RMB300 million (31 December 2005: RMB755 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches who borrowed these long-term bank loans.

(b) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD0.7 billion. This facility was split into 3 tranches (i) USD0.2 billion 3-year loan; (ii) USD0.3 billion 5-year loan; and (iii) USD0.2 billion 7-year loan and carried an interest rate of 0.28%, 0.35% and 0.44% over US dollar LIBOR per annum for each tranche respectively. In October 2003, the Company and CUCL entered into an agreement to re-lend such funds to CUCL with similar terms to finance the network construction of CUCL.

In addition, on 25 February 2004, CUCL signed an agreement with various financial institutions for a long-term syndicated loan of USD0.5 billion to finance its working capital and network construction expenditures. This facility is repayable in 3 years and carries an interest rate of 0.40% over US dollar LIBOR per annum.

13. PAYABLES AND ACCRUED LIABILITIES

	Note	**Unaudited 30 June 2006**	Audited 31 December 2005
Payables to contractors and equipment suppliers		**13,305,811**	11,156,462
Accrued expenses		**2,615,318**	1,835,353
Payables to telecommunications products suppliers		**1,095,454**	1,372,853
Customer deposits		**1,673,338**	1,456,601
Maintenance expense payable		**1,138,567**	542,540
Salary and welfare payables		**849,518**	464,372
Amounts due to Services Providers/Content Providers		**963,188**	716,180
Provision for subscriber points expenses		**546,535**	337,414
Others	(a)	**795,080**	644,853
		22,982,809	18,526,628

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

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

	Unaudited 30 June 2006	Audited 31 December 2005
Less than six months	**13,931,254**	11,260,366
Six months to one year	**5,076,180**	4,766,400
More than one year	**3,975,375**	2,499,862
	22,982,809	18,526,628

14. SHORT-TERM BONDS

On 19 July 2005, CUCL completed an offering of short-term bonds, consisting of two tranches, in the PRC interbank debenture market. The first tranche of the bonds was issued in an aggregate amount of RMB9.0 billion with a maturity period of 365 days. The second tranche of the bonds was issued in an aggregate amount of RMB1.0 billion with a maturity period of 180 days, which was settled in January 2006. In addition, CUCL completed another offering of short-term bonds in March 2006 of RMB1.0 billion with a maturity period of 365 days. The effective interest rate of these short-term bonds as of 30 June 2006 was 3.04% per annum.

15. SHORT-TERM BANK LOANS

Interest rates on RMB denominated short-term bank loans ranged from 4.50% to 5.27% per annum during the six months ended 30 June 2006 (for the six months ended 30 June 2005: 4.54% to 5.02%).

As at 30 June 2006, approximately RMB1.0 billion (31 December 2005: RMB1.0 billion) of short-term loans were borrowed from an investment company in the PRC and guaranteed by a commercial bank in the PRC to finance the Group's working capital. The Company paid approximately RMB2 million to the commercial bank for this guarantee arrangement. The loan will be repayable in one year and carries an interest rate of 4.30% per annum.

16. REVENUE (TURNOVER)

Revenue primarily comprises usage fees, monthly fees, interconnection revenue, rental income from leased lines, value-added services revenue, and sales of telecommunications products earned by the Group. Tariffs for these services are subject to regulations by various government authorities, including the State Development and Reform Commission, the Ministry of Information Industry ("MII") and the provincial price regulatory authorities.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to RMB1,161 million for the six months ended 30 June 2006 (for the six months ended 30 June 2005: RMB 1,081 million).

(All amounts in RMB thousands unless otherwise stated)

17. EXPENSES BY NATURE

The following expenses are analyzed by nature:

	Note	Unaudited Six months ended 30 June 2006	2005
Depreciation:			
– Assets held under finance leases		**117,941**	73,507
– Other fixed assets		**10,719,516**	9,669,441
Total depreciation	5	**10,837,457**	9,742,948
Amortization of other assets	6(c)	**219,037**	229,066
		11,056,494	9,972,014
Amortization of direct incremental costs for activating cellular subscribers	6(a)	**883,795**	740,789
Amortization of customer acquisition costs of contractual CDMA subscribers	6(b)	**2,391,425**	3,123,647
Provision for doubtful debts:			
– GSM Business		**497,209**	446,070
– CDMA Business		**267,856**	260,970
– Data and Internet Business		**61,468**	78,031
– Long Distance Business		**21,499**	25,637
Total provision for doubtful debts	9	**848,032**	810,708
(Reversal of write-down)/Write-down of inventories to net realizable value		**(19,082)**	50,758
Cost of inventories		**2,406,466**	1,805,895
Operating lease expense:			
– Leased lines		**335,021**	461,878
– CDMA network capacities		**4,066,128**	3,962,591
– Lease of land		**16,492**	22,703
– Other lease expense		**737,710**	587,249
Total operating lease expense		**5,155,351**	5,034,421
Other expenses:			
– Repair and maintenance		**1,506,562**	1,296,642
– Traveling, entertainment and meetings		**575,128**	563,941
– Power and water charges		**1,214,789**	964,928
– Office expenses		**331,631**	391,393

(All amounts in RMB thousands unless otherwise stated)

17. EXPENSES BY NATURE (continued)

	Unaudited	
	Six months ended 30 June	
	2006	2005
Personnel:		
– Salaries and wages	**2,570,302**	2,019,470
– Contributions to defined contribution pension schemes	**173,906**	163,663
– Contributions to supplementary defined contribution pension schemes	**78,498**	27,081
– Monetary housing benefits	**32,066**	10,663
– Contributions to other housing fund	**168,095**	118,251
– Other housing benefit	**228,604**	207,069
– Share-based compensation (Note 19)	**68,396**	74,564
Total personnel	**3,319,867**	2,620,761
Finance costs:		
– Interest expense	**475,986**	669,633
– Exchange (gain)/loss, net	**(71,428)**	2,990
– Bank charges	**20,969**	15,967
Total finance costs	**425,527**	688,590

18. DIVIDENDS

At the annual general meeting held on 12 May 2006, the shareholders of the Company approved the payment of a final dividend of RMB0.11 per ordinary share for the year ended 31 December 2005, totaling approximately RMB1,384,146,000 (for the year ended 31 December 2004: approximately RMB1,256,924,000), which has been reflected as an appropriation of retained profit for the six months ended 30 June 2006. As of 30 June 2006, such dividends have been paid by the Company, except for dividends payable of RMB725 million due to Unicom BVI. The Company has fully settled the dividend payable to Unicom BVI subsequent to 30 June 2006.

(All amounts in RMB thousands unless otherwise stated)

19. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") and a fixed award pre-global offering share option scheme ("Pre-Global Offering Share Option Scheme") on 1 June 2000 for the granting of share options to qualified employees, with terms amended on 13 May 2002 to comply with the requirements set out in the New Chapter 17 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

	Unaudited			
	Six months ended 30 June			
	2006		2005	
	Average exercise price in HK$ per share	**Number of Options**	Average exercise price in HK$ per share	Number of Options
Balance, beginning of period	**6.51**	**257,602,000**	6.45	274,063,400
Granted	**6.35**	**167,466,000**	—	—
Forfeited	**6.73**	**(2,060,000)**	6.93	(4,554,200)
Exercised	**4.76**	**(11,840,000)**	4.46	(6,191,200)
Balance, end of period	**6.49**	**411,168,000**	6.48	263,318,000

Employee share options exercised for the six months ended 30 June 2006 resulted in 11,840,000 shares being issued (for the six months ended 30 June 2005: 6,191,200 shares), with exercise proceeds of approximately RMB58.21 million (for the six months ended 30 June 2005: RMB29.60 million).

As at 30 June 2006, out of the 411,168,000 outstanding options (31 December 2005: 257,602,000 options), 181,649,960 options were exercisable (31 December 2005: 162,981,160 shares), and the weighted average exercise price was HK$ 6.85 (31 December 2005: HK$7.12).

(All amounts in RMB thousands unless otherwise stated)

19. SHARE OPTION SCHEME (continued)

As at 30 June 2006, information of outstanding options is summarized as follows:

Date of options grant	The period during which options may be exercised	The price per share to be paid on exercise of options	Number of share options outstanding as at 30 June 2006	Number of share options outstanding as at 31 December 2005
Share options granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000	22 June 2002 to 21 June 2010	HK$15.42	**24,178,000**	24,309,600
Share options granted under the Share Option Scheme:				
30 June 2001	30 June 2001 to 22 June 2010	HK$15.42	**6,508,000**	6,508,000
10 July 2002	10 July 2003 to 9 July 2008	HK$6.18	**23,592,400**	25,012,800
21 May 2003	21 May 2004 to 20 May 2009	HK$4.30	**82,703,600**	91,381,600
30 May 2003	21 May 2004 to 20 May 2009	HK$4.66	**212,000**	212,000
20 July 2004	20 July 2005 to 19 July 2010	HK$5.92	**106,636,000**	109,524,000
21 December 2004	21 December 2005 to 20 December 2010	HK$6.20	**654,000**	654,000
15 February 2006 (a)	15 February 2008 to 14 February 2012	HK$6.35	**166,684,000**	—
			411,168,000	257,602,000

(All amounts in RMB thousands unless otherwise stated)

19. SHARE OPTION SCHEME (continued)

(a) Pursuant to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 15 February 2006, a total of 167,466,000 share options were granted to eligible individuals (including directors of the Company and middle to senior management of the Group) under the amended Share Option Scheme on the following terms:

(i) This grant comprises of basic and conditional portions. The criteria for the exercise of the conditional portion of share options are based on the achievement of revenue and profit targets of the 2006 budget of the Company and respective provincial branches. Under this scheme, out of the total of 167,446,000 share options granted, 37,762,000 options were granted with performance conditions;

(ii) an aggregate of 2,840,000 options were granted to the then executive directors of the Company;

(iii) the exercise price per share option is HK$6.35; and

(iv) the vesting dates and exercisable periods of the options are as follows:

Vesting dates	Exercisable periods	Portions
15 February 2008	15 February 2008 to 14 February 2012	50%
15 February 2009	15 February 2009 to 14 February 2012	50%

The Group recognised share-based employee compensation costs based on the estimated fair value of share options at the grant date by using the Black-Scholes valuation model. Accordingly, the fair value of options granted under the above scheme in 2006 was HK$2.10 per option. The significant assumptions used was share price of HK$6.35 at the grant date, exercise prices of HK$6.35 per share, volatility of 39%, expected life of options of 5 years, expected dividend pay out rate of 2% and annual risk-free interest rate of 4%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 5 years. There was no share options granted during the six months ended 30 June 2005.

For the six months ended 30 June 2006, employee share-based compensation costs amortized over the vesting periods of the share options amounted to approximately RMB68.40 million (for the six months ended 30 June 2005: approximately RMB74.56 million).

20. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2006 and 2005 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the periods.

Diluted earnings per share for the six months ended 30 June 2006 and 2005 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the periods, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme.

	Unaudited					
	Six months ended 30 June					
	2006			2005		
	Profit attributable to shareholders RMB'000	**Shares in thousands**	**Per share amount RMB**	Profit attributable to shareholders RMB'000	Shares in thousands	Per share amount RMB
Basic earnings	**2,799,398**	**12,579,578**	**0.223**	2,329,040	12,567,705	0.185
Effect of conversion of share options	**—**	**41,083**		—	62,317	
Diluted earnings	**2,799,398**	**12,620,661**	**0.222**	2,329,040	12,630,022	0.184

21. RELATED PARTY TRANSACTION

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-owned enterprises and their subsidiaries, in addition to Unicom Group, directly or indirectly controlled by the PRC government are considered to be related parties of the Group. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The PRC government also controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of other state-controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers. Management considers other state-owned enterprises that have other material transactions with the Group include other telecommunication service operators, equipment vendors, construction vendors, services providers and state-owned banks in the PRC. Management believes that meaningful information relative to related party transactions has been adequately disclosed below.

The Group's telecommunications networks depend, in large part, on interconnection with the public switched telephone networks and on transmission lines leased from major telecommunication service operators. Major telecommunication service operators include China Telecommunications Corporation and its subsidiaries ("China Telecom"), China Mobile Communications Corporation and its subsidiaries ("China Mobile") and China Network Communication Group Corporation and its subsidiaries ("China Netcom"). These entities are collectively referred to as "Domestic Carriers".

21.1 Unicom Group and its subsidiaries

The table set forth below summarizes the names of significant related parties (excluding Domestic Carriers and other major state-owned enterprises which are summarized in Notes 21.2 and 21.3) and nature of relationship with the Group as of 30 June 2006:

Name of related parties	Nature of relationship with the Company
China United Telecommunication Corporation ("Unicom Group")	Ultimate parent company
Unicom NewSpace Co., Ltd. ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye")	A subsidiary of Unicom Group
Beijing Unicom Xingye Science and Technology Company Limited ("Beijing Xingye")	A subsidiary of Unicom Group
Unicom Import and Export Company Limited (" Unicom I/E Co")	A subsidiary of Unicom Group
Unicom New Horizon Mobile Telecommunications Company Limited ("New Horizon")	A subsidiary of Unicom Group
Unicom New Guoxin Telecommunications Corporation Limited ("New Guoxin")	A subsidiary of Unicom Group
UNISK (Beijing) Information Technology Corporation Limited ("UNISK")	A joint venture company of Unicom Group

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTION (continued)

21.1 Unicom Group and its subsidiaries (continued)

(a) Transactions with Unicom Group and its Subsidiaries

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenue	**115,675**	110,518
Interconnection and roaming charges	**29,239**	35,510
Charges for cellular subscriber value-added service by New Guoxin	**180,348**	255,008
Charges for customer services	**333,038**	281,371
Charges for cellular subscriber value-added service by UNISK and Unicom NewSpace	**23,540**	8,480
Rental charges for premises, equipment and facilities	**14,030**	13,790
Rental income for premises and facilities	**9,554**	9,007
Constructed capacity related cost of CDMA network	**84,018**	114,648
Revenue for leasing of transmission line capacity	**8,229**	13,410
Charges for the international gateway services	**9,552**	9,801
Charges for leasing of satellite transmission capacity	**—**	7,076
CDMA network capacity lease rental	**4,066,128**	3,962,591
Sales of CDMA handsets	**42,488**	—
Purchase of telecom cards	**410,921**	490,517
Commission fee	**6,821**	7,946
Agency fee incurred for procurement of telecommunications equipment	**10,389**	8,640

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

Amounts due from and to Unicom Group and its subsidiaries were unsecured, non-interest bearing, repayable on demand and arise in the ordinary course of business.

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTION (continued)

21.2 Domestic Carriers

(a) Transactions with Domestic Carriers

The following is a summary of significant transactions with Domestic Carriers in the ordinary course of business:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Interconnection revenue	**2,517,077**	1,812,757
Interconnection charges	**4,380,137**	3,799,831
Leased line revenue	**25,947**	35,091
Leased line charges	**150,551**	290,706

(b) Amounts due from and to Domestic Carriers

	Unaudited 30 June 2006	Audited 31 December 2005
Amounts due from Domestic Carriers		
– Receivable for interconnection revenue and leased line revenue	**219,295**	139,099
– Less: Provision for doubtful debts	—	(614)
	219,295	138,485
Amounts due to Domestic Carriers		
– Payables for interconnection charges and leased lines charges	**969,478**	822,006

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

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTION (continued)

21.3 Other major state-owned enterprises

(a) Transactions with other major state-owned enterprises

The following is a summary of significant transactions with other major state-owned enterprises in the ordinary course of business:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Purchase of CDMA handsets	**263,290**	377,708
Construction and installation fee	**174,580**	143,263
Maintenance and repair expenses	**39,859**	25,330
Purchase of equipment	**741,317**	772,932
Line leasing revenue	**91,197**	116,973
Finance income/costs, include:		
– Interest income	**37,994**	32,956
– Interest expense	**578,582**	907,117
Short-term bank loan received	**610,000**	7,834,632
Long-term bank loan received	**1,285,000**	4,213,310
Short-term bank loan repayments paid	**3,677,661**	7,696,577
Long-term bank loan repayments paid	**4,805,377**	8,320,609

(b) Amounts due from and to other major state-owned enterprises

The balances with other major state-owned enterprises in various line items of the unaudited condensed consolidated interim balance sheet are listed as follows:

	Unaudited 30 June 2006	Audited 31 December 2005
Current assets		
Prepayment and other current assets	**277,117**	160,681
Short-term bank deposit	**519,714**	282,457
Cash and cash equivalents	**7,051,189**	5,191,067
Non-current liabilities		
Long-term bank loans	**2,035,740**	7,946,418
Current liabilities		
Payables and accrued liabilities	**424,942**	341,446
Short-term bank loans	**2,162,000**	6,431,208
Current portion of long-term bank loans	**1,886,350**	5,145,190

(All amounts in RMB thousands unless otherwise stated)

21. RELATED PARTY TRANSACTION (continued)

21.4 Key management compensation

The aggregate amounts of fees and emoluments payable to directors of the Company during the six months ended 30 June 2006 are set out below:

	Unaudited	
	Six months ended 30 June	
	2006	2005
Non-executive directors:		
Fees	**954**	752
Executive directors:		
Fees	**—**	—
Other emoluments		
– Salaries, allowance and other allowances	**6,263**	5,770
– Bonus paid and payable	**3,204**	3,111
– Other benefits	**613**	310
– Pension benefits/pension scheme contributions	**38**	57
	10,118	9,248
	11,072	10,000

22. CONTINGENCIES AND COMMITMENTS

22.1 Capital Commitments

As of 30 June 2006 and 31 December 2005, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited			Audited
	30 June 2006			31 December 2005
	Land and buildings	**Equipment**	**Total**	Total
Authorized and contracted for	**486,111**	**1,676,614**	**2,162,725**	3,879,666
Authorized but not contracted for	**145,517**	**1,375,902**	**1,521,419**	329,258
Total	**631,628**	**3,052,516**	**3,684,144**	4,208,924

As at 30 June 2006, approximately RMB270 million (31 December 2005: RMB218 million) of capital commitment outstanding was denominated in US dollars, equivalent to US$34 million (31 December 2005: US$27 million).

(All amounts in RMB thousands unless otherwise stated)

22. CONTINGENCIES AND COMMITMENTS (continued)

22.2 Operating Lease Commitments

As of 30 June 2006, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	Unaudited				Audited
	30 June 2006				31 December 2005
	Land and buildings	Equipment	CDMA network capacities (a)	Total	Total
Leases expiring:					
– not later than one year	679,185	148,677	3,066,052	3,893,914	7,873,407
– later than one year and not later than five years	1,687,042	55,090	—	1,742,132	1,990,679
– later than five years	1,278,793	22,420	—	1,301,213	1,168,106
Total	3,645,020	226,187	3,066,052	6,937,259	11,032,192

(a) In 2005, the Group entered into a New CDMA Lease Agreement with Unicom Group and Unicom New Horizon (the "New CDMA Leasing Agreement") . Pursuant to the New CDMA Leasing Agreement, the lease fee in 2006 shall be 30% of the audited CDMA service revenue, but shall not be less than 90% of the total amount of lease fee for 2005. In relation to the above CDMA network capacities commitment, it is estimated based on 90% of the total amount of lease fee paid by the Group to Unicom New Horizon for 2005. The New CDMA Leasing Agreement will expire at the end of 2006. The Group is currently reconsidering such lease arrangement in anticipation of the expiration of the two-year term of this New CDMA Leasing Agreement.

22.3 Commitment to purchase CDMA Handsets

As at 30 June 2006, the Group committed to purchase CDMA handsets from third party vendors amounting to approximately RMB1.6 billion (31 December 2005: RMB1.2 billion).

23. EVENTS AFTER BALANCE SHEET

23.1 CUCL's offering of short-term bonds

On 4 July 2006, the People's Bank of China approved CUCL to issue short-term bonds in the PRC interbank debenture market with a bond issuance limit of RMB18 billion. In July 2006, CUCL completed the short-term bond offering for an aggregate amount of RMB6 billion, with maturity periods ranging from 180 days to 365 days.

23.2 Issue of US$1 billion convertible bonds

On 20 June 2006, the Company has entered into a Strategic Alliance Framework Agreement ("SAFA") with SK Telecom Co. Ltd. ("SKT"), pursuant to which the Company and SKT agreed to cooperate on the future development of CDMA cellular communications services.

At the same time, the Company has also entered into a subscription agreement ("Subscription Agreement") with SKT, whereby SKT agreed to subscribe and pay for the US dollar denominated bonds (the "Convertible Bonds") to be issued at par by the Company in an aggregate principal amount of US$1 billion. The three-year Convertible Bonds bear zero interest, with a conversion price of HK$8.63 and will mature on 5 July 2009.

Completion of the Subscription Agreement was subject to the satisfaction and /or waiver of the certain conditions precedent therein. The Subscription Agreement and the SAFA were not inter-conditional upon the completion of each other, but upon the termination of the Subscription Agreement, the SAFA would terminate immediately. Upon the fulfilment of the conditions stipulated in the Subscription Agreement, the Convertible Bonds were issued on 5 July 2006.

24. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 24 August 2006.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA UNICOM LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the condensed interim financial report of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2006 as set out on pages 9 to 41.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The condensed interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the condensed interim financial report 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.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the group's management and applying analytical procedures to the condensed interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the condensed interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the condensed interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2006

SHARE OPTION SCHEMES OF THE COMPANY

1. Share option scheme

The Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. The terms of the Share Option Scheme comply with the requirements set out in Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and provide favourable scheme to attract and retain key personnel. Under the Share Option Scheme:

(a) Share options may be granted to employees including executive directors of the Group and any of the non-executive directors;

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

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

(d) The option period may commence on a day after the date on which an option is offered, and in any event shall end not later than 10 years from the offer date;

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

i. The nominal value of the shares;

ii. The closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") as stated in the Hong Kong Stock Exchange's quotation sheets on the offer date in respect of the options; and

iii. The average closing price of the shares on the Hong Kong Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date.

On 15 February 2006, the Company granted 167,466,000 share options under the Share Option Scheme, of which 2,840,000 share options were granted to the then existing Directors and 3,000,000 share options were granted to senior management who were later appointed as Directors of the Company on 1 April 2006. The Company used the Black-Scholes valuation model to value the share options granted during the period. The value of an option is determined based on different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

As of 30 June 2006, 386,990,000 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 12,564,000 share options are being held by the directors. Please refer to the paragraph "Directors' Rights to Acquire Shares" hereinbelow for details. All the options granted and outstanding as at 30 June 2006 under the Share Option Scheme are governed by the terms as amended on 13 May 2002.

For the six months ended 30 June 2006, 11,840,000 options granted under the Share Option Scheme have been exercised. Among which, 1,084,000 options were exercised at the price of HK$6.180 per share, 8,678,000 options were exercised at the price of HK$4.300 per share, 2,078,000 options were exercised at the price of HK$5.920 per share.

2. Pre-global offering share option scheme

The Company also adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"). The terms of the Pre-Global Offering Share Option Scheme are substantially the same as the Share Option Scheme stated above except that:

(a) The price of a share payable upon the exercise of an option shall be HK$15.420 (excluding the brokerage fee and the Hong Kong Stock Exchange transaction levy);

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

(c) No further options can be granted under the scheme.

As of 30 June 2006, 24,178,000 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme of the Company, of which 789,600 options are being held by the directors. Please refer to the paragraph "Directors' Rights to Acquire Shares" hereinbelow for details.

All of the options granted and outstanding as at 30 June 2006 under the Pre-Global Offering Share Option Scheme are governed by the terms as amended on 13 May 2002.

Up to 30 June 2006, no options granted under the Pre-Global Offering Share Option Scheme have been exercised.

Please also refer to Note 19 to the unaudited condensed consolidated interim financial information for information of share options.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2006, the interests and short positions of the Directors and past Directors of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities and Futures Ordinance (the "Ordinance")) as recorded in the register required to be kept under section 352 of the Ordinance 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 Companies were as follows:

As at 30 June 2006, except Mr. Li Zhengmao is the beneficial owner of 20,000 ordinary shares (representing 0.0002% of the issued share capital) of the Company, and saved as disclosed in this report, none of the directors had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures in the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

For the six months ended 30 June 2006, the interests of the Directors and past Directors of the Company reported and disclosed under the Ordinance in the equity securities of the Company and any of its associated corporations consisted of share options granted pursuant to the Share Option Scheme and the Pre-Global Offering Share Option Scheme to subscribe for shares of the Company. Details of such share options are set out below:

Name of Director	No. of Options outstanding as at 1 January 2006[1]	No. of Options granted during the period[1]	No. of Options exercised during the period	No. of Options outstanding as at 30 June 2006
Chang Xiaobing	526,000	800,000	—	1,326,000
Shang Bing	1,208,400	700,000	—	1,908,400
Tong Jilu	1,168,000	500,000	—	1,668,000
Li Jianguo[3]	1,052,000	500,000	—	1,552,000
Yang Xiaowei[3]	618,000	500,000	—	1,118,000
Li Zhengmao[3]	860,600	500,000	—	1,360,600
Li Gang[3]	—	500,000	—	500,000
Zhang Junan[3]	—	500,000	—	500,000
Lu Jianguo[3]	1,168,600	500,000	—	1,668,600
Wu Jinglian	876,000	—	—	876,000
Shan Weijian	584,000	—	—	584,000
Cheung Wing Lam, Linus	292,000	—	—	292,000
Wong Wai Ming[2]	—	—	—	—
Li Qiuhong[4]	816,400	280,000	—	N/A
Lo Wing Yan, William[4]	350,000	280,000	—	N/A
Ye Fengping[4]	734,000	280,000	—	N/A
Liu Yunjie[4]	876,600	—	—	N/A

Notes:

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

2. Mr. Wong Wai Ming was appointed as independent non-executive director on 19 January 2006.

3. Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Li Zhengmao, Mr. Li Gang and Mr. Zhang Junan were appointed as executive directors on 1 April 2006; Mr. Lu Jianguo was appointed as non-executive director on 1 April 2006.

4. Mr. Li Qiuhong, Mr. Lo Wing Yan, William, and Mr. Ye Fengping resigned as executive directors on 1 April 2006; Mr. Liu Yunjie resigned as non-executive director on 1 April 2006.

Apart from the foregoing, at no time during the six months ended 30 June 2006, 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 18 years of age to acquire shares in or debentures of the Company or any other body corporate.

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

The Company has been notified of the following interests or short positions in the Company's issued shares at 30 June 2006 amounting to 5% or more of the ordinary shares in issue as defined under the Ordinance:

		Ordinary shares held		Other	Percentage of Total Issued
		Directly	**Indirectly**	**Interests held**	**Shares**
(i)	China United Telecommunications Corporation ("Unicom Group") [1]	—	9,725,000,020	—	77.27%
(ii)	China United Telecommunications Corporation Limited ("A Share Company") [1]	—	9,725,000,020	—	77.27%
(iii)	China Unicom (BVI) Limited ("China Unicom (BVI)") [1]	9,725,000,020	—	—	77.27%
(iv)	SK Telecom Co., Ltd ("SKT") [2]	—	—	899,745,075	7.15%

Notes:

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

2. SKT has an interest in 899,745,075 shares in the Company's issued shares by virtue of its ownership of Convertible Bonds issued by the Company. Please refer to Note 23.2 to the unaudited condensed interim financial statements of this Interim Report and "Strategic Alliance Framework Agreement with SK Telecom Co., Ltd. and Issue of Convertible Bonds" below for details of the grant of the Convertible Bonds.

Apart from the foregoing, as at 30 June 2006 no person or corporation had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under section 336 of the Ordinance.

STRATEGIC ALLIANCE FRAMEWORK AGREEMENT WITH SK TELECOM CO., LTD. AND ISSUE OF CONVERTIBLE BONDS

The Company entered into a Strategic Alliance Framework Agreement ("SAFA") with SKT on 20 June 2006, pursuant to which the Company and SKT agreed to cooperate on the further development of CDMA cellular communications services. The Company has agreed to appoint SKT as its sole and exclusive partner in relation to its CDMA cellular communications business operations in certain cooperation areas in mainland China for a maximum term of up to 18 months after the effective date of the SAFA.

At the same time, the Company has also entered into a subscription agreement ("Subscription Agreement") with SKT, whereby SKT agreed to subscribe and pay for the US dollar denominated bonds (the "Convertible Bonds") to be issued at par by the Company in an aggregate principal amount of US$1 billion. The three-year Convertible Bonds bear zero interest, with a conversion price of HK$8.63 and will mature on 5 July 2009.

Completion of the Subscription Agreement was subject to the satisfaction and /or waiver of the certain conditions precedent therein. The Subscription Agreement and the SAFA were not inter-conditional upon the completion of each other, but upon the termination of the Subscription Agreement, the SAFA would terminate immediately. Upon the fulfilment of the conditions stipulated in the Subscription Agreement, the Convertible Bonds were issued on 5 July 2006.

INTERIM DIVIDEND

It was resolved by our Board of Directors that no interim dividend for the six months ended 30 June 2006 be declared.

CHARGE OF ASSETS

As at 30 June 2006, no property, plant and equipment was pledged to banks as loan security (30 June 2005: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed together with the management, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of annual report and interim report. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 has been reviewed by the audit committee.

The audit committee comprises Mr. Wong Wai Ming, Mr. Wu Jinglian, Mr. Shan Weijian and Mr. Cheung Wing Lam, Linus, the independent non-executive directors of the Company.

REMUNERATION COMMITTEE

The major functions of the committee include: considering and approving the remuneration policies proposed by the management, remuneration package of executive directors and the Company's share option scheme.

The remuneration committee comprises Mr. Wu Jinglian and Mr. Cheung Wing Lam, Linus, independent non-executive directors, and Mr. Lu Jianguo, non-executive director of the Company.

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") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 30 June 2006 except the following:

(a) Under the Code Provision A.2.1, there should be a clear division of the roles between chairman and chief executive officer, and these roles should not be performed by the same individual. The Board of Directors understands that the principle of the Code Provision is to clearly divide the management of the Board and the daily management of the Company so as to ensure balance of power and authority. Mr. Chang Xiaobing has been the Chairman and CEO of the Company since December 2004. Mr. Shang Bing is the Company's President. Mr. Chang Xiaobing is responsible for chairing the Board of Directors and for all material affairs, including development, business strategy, operation and management of the Company. Mr. Shang Bing is responsible for the daily operation and management of the Company. The Board of Directors believes that at the present stage, so far as their functions are concerned, Mr. Chang Xiaobing and Mr. Shang Bing have achieved the aforesaid division purpose. The arrangement also facilitates the formulation and implementation of the Company's strategies in a more effective manner so as to assist the Company in further improving its effectiveness in business development.

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

(c) Under the Code Provision A.1.4, all directors should have access to the advice and services of the Company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. On 17 January 2006, the previous company secretary resigned and the current company secretary was appointed on 21 February 2006. Such resignation of the previous company secretary and appointment of the current company secretary were respectively announced by the Company on 17 January 2006 and 22 February 2006.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2006.

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

The Company has emphasized the importance of compliance with the requirements under Section 404 of the SOX Act. Section 404 of the SOX Act requires that a non-US issuer with equity securities listed on the US securities markets, such as the Company, includes a report in its Form 20-F annual report that contains an assessment by management of the effectiveness of its internal control over financial reporting. Section 404 of the SOX Act became effective for the Company from the financial year ending on 31 December 2006.

The management is required to assess in its report the effectiveness of the Company's internal control over financial reporting as of the end of the relevant financial year. In addition, the Company's independent registered public accounting firm is required to audit and attest to the Company management's assessment of the effectiveness of the Company's internal control over financial reporting.

In order to enhance its corporate governance standards in accordance with the requirements under the SOX Act, the Company has undertaken a number of initiatives with respect to the enhancement of the internal controls since 2004. Efforts were made in implementing the modifications to the internal controls and organizing nationwide staff training. The Company hopes that, through its continuing efforts, such as improving the internal control procedures over business processes, identifying key risk controls, establishing the responsibility system for risk management and establishing a detailed documentation system, a comprehensive risk management mechanism that is designed to better manage the risks arising from the business activities of the Company was established, thereby facilitating the implementation of the Company's business strategies and achieving greater operative efficiency in the future.

4. Summary of Significant Differences between the Corporate Governance Practices of the Company and the Corporate Governance Practices Required to be Followed by U.S. 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 "NYSE"), 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 SOX Act. The Company is also subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. However, as a non-U.S. company, the Company is not required to comply with all of the corporate governance listing standards of the NYSE.

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

5. Appendix 16 of the Listing Rules

According to paragraph 40 of Appendix 16 to the Listing Rules "Disclosure on 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 2005 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2006, the Group employed approximately 100 and 53,000 staff in Hong Kong and China respectively. The Group ensures that its employees' remuneration is in line with the market trend and remain competitive. Employees' remuneration is determined based on the performance of employees in accordance with the Group's remuneration and bonus scheme. The Group also provides comprehensive benefit packages and career development opportunities for its staff, including retirement benefits, housing benefits, internal and external training programmes according to individual needs.

The Company has a share option scheme under which the Company offers to eligible staff share options for subscribing its shares.

FORWARD-LOOKING STATEMENTS

The Company would like to caution readers about the forward-looking nature of some of the aforesaid statements. These forward-looking statements are subject to risks and uncertainties, some of which are beyond our control. Potential risks and uncertainties include: the uncertainties in the development of telecommunication industry and technology in China, growth of the market, changes in the competitive environment, regulatory environment and Chinese government's industry policy and other factors that will affect the execution of our business plans and strategies.

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 24 August 2006