China unicom 中国联通

CHINA UNICOM LIMITED

Incorporated in Hong Kong with limited liability under the Companies Ordinance

07

Interim Report 2007

Stock Code: 0762

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Chairman's Statement

In the first half of 2007, the Company continued to reinforce the transformation of its business model, actively promoted segregated operations, drove harder to expand the market, and effectively increased the efficiency level and the service quality. As a result, the Company maintained healthy development in all aspects of its businesses and achieved encouraging operating results.

Major results

Total revenue of the Company for the first six months was RMB49.17 billion, up 5.1% over the same period last year. Service revenue was RMB46.45 billion, up 3.8% over the same period last year. Of the service revenue, the GSM business accounted for RMB30.96 billion, the CDMA business, for RMB13.49 billion, and the long distance, data and Internet businesses, for RMB2.00 billion.

Profit of the Company for the first six months was RMB2.13 billion. Excluding the effect of the unrealized loss on changes in fair value of derivative component of convertible bonds amounting to RMB1.64 billion, profit before tax would be RMB5.65 billion, an increase of 38.9% over the same period last year. Adjusted profit for the first six months would be RMB3.77 billion, an increase of 34.6% over the same period last year, and adjusted earnings per share would be RMB0.297.

Business development

In the first half year, facing a change in the competition environment and an adjustment of the cellular tariff policy, the Company persisted in effective development and made rational responses to the market competition change so as to ensure the continued healthy development of the cellular business. For the GSM business, the Company has proceeded with brand-centric marketing, effectively controlled sales and marketing costs; strengthened the maintenance and retention of users and strove to reduce the churn rate; formalized tariff and improved the user structure, which resulted in a steady growth in revenue. For the CDMA business, the Company has adhered to the principle of matching marketing expenses with subscriber contribution and strengthened its efforts in sales promotion; enhanced the centralized purchasing of CDMA handsets to reduce handset costs; emphasized the establishment of sales distribution channels, so that business operations further improved. As of 30 June 2007, the Company had a total of 151.632 million cellular subscribers, a net increase of 9.266 million cellular subscribers in the first half of the year.

To strengthen refined and segregated operations, the Company has established separate operating systems and management teams for the GSM and CDMA businesses and clearly defined their respective business development objectives and responsibilities. It also implemented segregated sales operations. As a result, the development quality of the GSM and CDMA businesses has further improved.

The Company has also made active efforts to develop the value-added business. While continuing to vigorously promote the services of SMS, "Cool Ringtone" and "U-Net", the Company has launched the mobile TV service to provide richer and diversified audio-visual programs for subscribers. In addition, it has also upgraded the "Stock in Palm" service in an all-round manner to provide professional cellular securities trading services. The GPRS network has been put into operation in 129 cities nationwide and new services were launched. Revenue from mobile value-added services increased by 17.4% compared with the same period last year, and accounted for 21.1% of service revenue from the cellular business.

The long distance, data and Internet businesses have firmly consolidated the results of the product structure adjustment with healthier business development and a gradual improvement in profitability.

The Company placed much emphasis on network construction and international cooperation. In response to market demand, the Company strengthened the construction of cellular networks to further improve the network quality, and thus greatly increased the network connection rate. The Company also actively cooperated with domestic and overseas service and content providers to jointly establish the ecological industry chain. Meanwhile, it has strengthened cooperation with overseas operators to develop the international roaming business and continued to facilitate the strategic cooperation with SK Telecom to expedite the development of the CDMA business.

The Company insisted on promoting development by rendering quality services and has made 2007 the "Quality Service Year". In organizing various specific service activities, the Company also implemented the "Unicom 10010" brand service standard and formalized operational management and strictly fulfilled service commitments so as to increase customer satisfaction.

The Company put a strong emphasis on financial management and fully implemented separate management of financial receipts and expenditures, which resulted in considerable improvement in the efficiency of fund operation. In achieving the budget management objectives, the Company strengthened budgetary control and increased the efficiency of financial management.

The Company actively strengthened its internal control system and established the internal control and risk management structure. As part of the 2006 integrated audit, the independent auditor has expressed an unqualified opinion that the Company maintained effective internal control over financial reporting as of 31 December 2006.

Outlook

In the second half year, the Company will continue to strengthen the segregated operations of the GSM and CDMA businesses and promote the rapid development of all businesses. While putting an emphasis on the quality and profitability of development, the Company will also emphasize on the speed of development.

For the GSM business, the Company will continue to strengthen brand-centric marketing to launch the "Worldwind 156" high-end product of GSM network, strengthen promotion in the "U-Power" campus market and the "Ruyi Tong" mass market; strengthen the direct supply capability of social distribution channels and the sales capability of self-owned distribution channels, actively develop standard prepaid products and expand the convenient-typed of distribution channels; and ensure the matching of marketing expenses with subscriber contribution, so as to increase the quality of business development.

For the CDMA business, the Company will, in accordance with the principle of "linking subsidy to revenue contribution from subscribers", adjust and optimize the subsidy mode; strengthen tariff management and emphasize the maintenance of medium-to-high end subscribers to improve the subscriber structure; further enhance the centralized purchasing and sales of handsets, speed up the establishment of distribution channels; actively organize marketing activities with themes by combining the youth market, the holiday market with the launch of the "153" network number to increase revenue and profitability steadily.

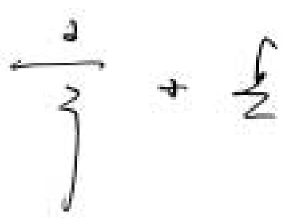
For the value-added business, the Company will further expand its market scale and optimize the revenue structure. As for the GSM value-added business, while continuing to increase the penetration of SMS and "Cool Ringtone" services, the Company will increase its efforts in developing the wireless data business by leveraging on the GPRS network. As for the CDMA value-added business, the Company will focus on developing key services such as "U-Net" and "Stock in Palm". In addition, the Company will further its effort to nurture and develop new products to satisfy customers' differentiated business needs and increase the proportion of revenue generated from value-added businesses.

For the long distance, data and Internet businesses, the Company will focus on the communication needs of customers by industry and small-to-medium size enterprises, to increase the subscriber penetration and maintain steady business growth.

The Company will continuously increase its refined marketing management standard and raise the awareness of "Customer First" to improve customer services; increase the investment in the construction and upgrade of the GSM network in a proper manner to enhance the network support capability; and further sustain the internal control and financial management mechanism, so as to further strengthen the foundation of management in all aspects.

In addition, full conversion of convertible bonds by SK Telecom in August 2007 will further consolidate the strategic alliance between the two parties.

In closing, on behalf of the Board of Directors, I would like to express my heartfelt gratitude to all our shareholders and to the wider community for their support to the Company. We will continue to strive to create even better value for our shareholders.



Chang Xiaobing

Chairman and Chief Executive Officer

23 August 2007

I. Financial Overview

For the first half of 2007, the Company continued to reinforce the transformation of business strategies, effectively accelerated its business development and continued to keep a sustainable steady growth in all its businesses.

Revenue

For the first half of 2007, our revenue continued to grow steadily and reached RMB49.17 billion, up by 5.1% from the same period last year. Of the total revenue, service revenue was RMB46.45 billion, up by 3.8% from the same period last year.

For the first half of 2007, service revenue from our GSM Cellular Business achieved RMB30.96 billion; service revenue from our CDMA Cellular Business achieved RMB13.49 billion and service revenue from our long distance, data and Internet businesses achieved RMB2.00 billion.

Costs and Expenses

For the first half of 2007, total costs and expenses were RMB45.16 billion. Excluding the effect of the unrealised loss on changes in fair value of derivative component of Convertible Bonds amounting to RMB1.64 billion, our total costs and expenses would be RMB43.53 billion, up by 1.9% from the same period last year, which is slower than the growth rate of revenue. Among the total, depreciation and amortisation expenses were RMB11.22 billion, up by 1.5% from the same period last year and selling and marketing expenses were RMB9.32 billion, down by 8.2% from the same period last year.

Earnings

For the first half of 2007, our profit before income tax was RMB4.01 billion. Of this, profit before income tax for the GSM Cellular Business was RMB4.75 billion, profit before income tax for the CDMA Cellular Business was RMB0.64 billion and profit before income tax for the long distance, data and Internet businesses was RMB0.26 billion. Profit for the period was RMB2.13 billion. Basic earnings per share was RMB0.168. EBITDA (Note 2) was RMB15.10 billion and EBITDA margin (EBITDA as a percentage of the total revenue) was 30.7%. EBITDA margin for the GSM Cellular Business was 45.7%.

For the first half of 2007, excluding the effect of the unrealised loss on changes in fair value of derivative component of Convertible Bonds amounting to RMB1.64 billion, profit before income tax would be RMB5.65 billion, up by 38.9% from the same period last year, adjusted profit for the period (Note 1) would be RMB3.77 billion, up by 34.6% from the same period last year, adjusted basic earnings per share would be RMB0.297, adjusted EBITDA (Note 2) was RMB16.73 billion and adjusted EBITDA margin (Adjusted EBITDA as a percentage of the total revenue) was 34.0%, up by 0.9 percentage points from the same period last year.

Capital Expenditures and Free Cash Flow

For the first half of 2007, our capital expenditures totaled RMB9.26 billion and free cash flow (i.e. net cash generated from operating activities minus capital expenditures) was RMB8.31 billion.

Balance Sheet

As at 30 June 2007, our capital structure was further improved. The liabilities-to-assets ratio (Note 3) decreased from 45.8% as at 31 December 2006 to 44.1% as at 30 June 2007. The debt-to-capitalisation ratio (Note 4) decreased from 24.4% as at 31 December 2006 to 18.5% as at 30 June 2007.

Note 1: Adjusted profit for the period represents profit for the period excluding the unrealised loss on changes in fair value of derivative component of Convertible Bonds. Please also refer to Note 20 to unaudited condensed consolidated interim financial information for quantitative reconciliation.

Note 2: EBITDA represents profit for the period before interest income, financial gains/costs, other gains-net, income tax and depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditures and financial gains/costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, we believe EBITDA may be helpful in analyzing the operating results of a telecommunications service operator like our Company.

Adjusted EBITDA represents profit for the period before unrealised loss on changes in fair value of derivative component of Convertible Bonds, interest income, financial gains/costs, other gains-net, income tax, depreciation and amortisation. We believe that the adjusted EBITDA may provide not only more meaningful supplemental information to but also facilitates the management and investors to assess the performance and liquidity of the Company by excluding the unrealised loss on changes in fair value of derivative component of Convertible Bonds that is not considered as an indicator of our operating performance from a cash flow perspective.

Although EBITDA and adjusted EBITDA have been widely applied in the global telecommunications industry as indicators to reflect the operating performance, financial capability and liquidity, they should be considered in addition to, and is not a substitute for or superior to, the measure of financial performance under generally accepted accounting principles (“GAAP”) as they do not have any standardized meaning under GAAP and are not regarded as measures of operating performance and liquidity under GAAP. In addition, they may not be comparable to similar indicators provided by other companies.

Note 3: Liabilities-to-assets ratio represents total liabilities over total assets.

Note 4: Debt-to-capitalisation ratio represents interest bearing debts plus minority interest over interest bearing debts plus total equity.

II. Business Overview

In the first half of 2007, centering on profitability improvement, the Company continued its transformation of business model, effectively implemented the separation of GSM and CDMA marketing operations, and further improved customer service quality, resulting in steady development of overall businesses.

1. Cellular Business

As of 30 June 2007, the total number of cellular subscribers reached 151.632 million, a net increase of 9.266 million in the first half of 2007. The market share of total subscribers in the service area of the Company was 30.7%.

As of 30 June 2007, the total number of GSM subscribers was 112.57 million, with a net addition of 6.697 million in the first half of 2007. The average minutes of usage (MOU) per subscriber per month for GSM business were 247.8 minutes, representing an increase of 17.1 minutes from 230.7 minutes in the first half of last year. The average revenue per user (ARPU) was RMB47.3, representing a decline of RMB2.7 from RMB50.0 in the first half of last year. The GSM monthly average churn rate was 2.73% in the first half of this year.

As of 30 June 2007, the total number of CDMA subscribers was 39.062 million, with a net addition of 2.569 million in the first half of 2007. The average MOU per subscriber per month for CDMA business were 265.1 minutes, representing a decrease of 7.7 minutes from 272.8 minutes in the first half of last year. The ARPU was RMB59.6, representing a decline of RMB8.5 from RMB68.1 in the first half of last year. The CDMA monthly average churn rate was 1.98% in the first half of this year.

2. Mobile Value-added Business

In the first half of 2007, by proactively promoting competitive value-added services such as stock trading and strengthening partnership management, the Company achieved the steady increase in the penetration rates of SMS, “Cool Ringtone” service and wireless data services, and maintained a robust growth momentum.

SMS service continued to grow rapidly. In the first half of 2007, total SMS messages reached 44.61 billion, representing an increase of 24.9% over the same period last year. Of this total, GSM SMS volume reached 35.41 billion, representing an increase of 29.3% over the same period last year and CDMA SMS volume was 9.20 billion messages, representing an increase of 10.3% over the same period last year.

“Cool Ringtone” service maintained a rapid growth. As of 30 June 2007, total “Cool Ringtone” subscribers reached 44.598 million, accounting for 29.4% of total cellular subscribers with a net addition of 8.717 million in the first half of 2007. Of this total, GSM “Cool Ringtone” subscriber reached 34.689 million and CDMA “Cool Ringtone” subscribers reached 9.909 million.

Wireless data subscriber base further expanded. As of 30 June 2007, the subscribers of CDMA 1X wireless data service reached 21.633 million, and its share of total CDMA subscribers increased to 55.4%. Of this total, CDMA 1X Internet access subscribers reached 1.890 million. The Company proactively promoted wireless data service, and timely launched wireless stock trading service. The subscription to wireless stock trading service based on the BREW/WAP platform grew rapidly, and the subscribers reached 105 thousand. In addition, GPRS service has been commercially launched in 129 cities.

During the first half of 2007, total revenue from mobile value-added services amounted to RMB9.4 billion, representing an increase of 17.4% compared with the same period last year, and mobile value-added service's shares of GSM and CDMA service revenue reached 20.7% and 22.1%, respectively.

3. Long Distance, Data and Internet Businesses

In the first half of 2007, by furthering transformation of products composition of long distance, data and Internet businesses, the Company achieved solid operating performance and steadily improved profitability.

In the first half of 2007, outgoing domestic and international long distance calls totaled 11.81 billion minutes, representing a decrease of 2.1% compared with the same period last year. Of this total, PSTN outgoing long distance calls amounted to 5.64 billion minutes, representing an increase of 5.6% compared with the same period last year whereas IP outgoing calls reached 6.18 billion minutes, representing a decrease of 8.2% compared with the same period last year. Incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, amounted to 1.86 billion minutes, representing an increase of 50.3% compared with the same period last year.

As of 30 June 2007, total bandwidth leased out under the leased line business was 52 thousand x 2Mbps, and total bandwidth leased out under Asynchronous Transfer Mode (ATM) and Frame Relay (FR) businesses amounted to 7,729 x 2Mbps. The terminals of "Uni-Video" broadband video-telephony service reached 469 thousand. The Internet broadband subscribers reached 935 thousand.

4. Customer Service and Distribution Channel

The Company follows the customer oriented principle. By launching the "Quality Service Year" campaign, introducing a series of initiatives such as "sincere service and worry-free consumption" activity, and improving internal cooperation and customer service standardization, the Company enhanced customer service capability and corporate social responsibility as well as further improved overall customer satisfaction.

The Company proactively planned the establishment of local distribution channels so as to facilitate marketing effectiveness. Through scientific planning and consolidation of channels, the Company speeded up the establishment and expansion of flagship sales outlets and enhanced the marketing and service capability of self-owned sales outlets. As a result, the Company's corporate image and service reputation have been improved, which greatly promoted the Company's business development.

Unaudited Condensed Consolidated Interim Financial Information

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2007
(All amounts in Renminbi ("RMB") thousands)

	Note	**Unaudited 30 June 2007**	Audited 31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	**109,543,509**	111,381,505
Goodwill		**3,143,983**	3,143,983
Other assets	6	**11,341,595**	11,176,569
Deferred income tax assets	7	**729,302**	309,668
		124,758,389	126,011,725
Current assets			
Inventories	8	**2,593,545**	2,333,902
Accounts receivable, net	9	**3,333,308**	3,419,343
Prepayments and other current assets	10	**2,010,289**	1,988,019
Amounts due from related parties	22.1	**173,434**	168,548
Amounts due from Domestic Carriers	22.2	**221,390**	138,521
Short-term bank deposits		**159,900**	195,820
Cash and cash equivalents		**9,029,247**	12,182,108
		17,521,113	20,426,261
Total assets		**142,279,502**	146,437,986
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	**1,347,072**	1,344,440
Share premium	11	**53,389,896**	53,222,976
Reserves		**3,625,672**	3,554,930
Retained profits			
– Proposed 2006 final dividend	21	**—**	2,282,578
– Others		**21,131,797**	19,003,893
		79,494,437	79,408,817
Minority interest		**3,529**	2,841
Total equity		**79,497,966**	79,411,658

(All amounts in RMB thousands)

	Note	Unaudited 30 June 2007	Audited 31 December 2006
LIABILITIES			
Non-current liabilities			
Long-term bank loans	12	**4,042,750**	4,139,349
Convertible bonds	13	**11,872,463**	10,324,949
Obligations under finance leases		**6,459**	10,230
Deferred income tax liabilities	7	**5,390**	5,879
Deferred revenue		**1,800,269**	2,243,384
		17,727,331	16,723,791
Current liabilities			
Payables and accrued liabilities	14	**28,206,377**	26,290,074
Taxes payable		**1,778,190**	1,632,195
Amounts due to Unicom Group	22.1	**84,022**	45,081
Amounts due to related parties	22.1	**786,815**	325,308
Amounts due to Domestic Carriers	22.2	**934,359**	850,975
Short-term bonds	15	**2,065,683**	7,087,217
Current portion of long-term bank loans	12	**80,000**	3,984,350
Current portion of obligations under finance leases		**18,214**	99,566
Advances from customers		**10,427,729**	9,987,771
Dividends payable	21	**672,816**	—
		45,054,205	50,302,537
Total liabilities		**62,781,536**	67,026,328
Total equity and liabilities		**142,279,502**	146,437,986
Net current liabilities		**(27,533,092)**	(29,876,276)
Total assets less current liabilities		**97,225,297**	96,135,449

The notes on pages 15 to 49 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2007
(All amounts in RMB thousands, except per share data)

		Unaudited	
		Six months ended 30 June	
	Note	**2007**	2006
Revenue (Turnover)			
GSM Business	4, 16, 22	**30,956,202**	29,360,695
CDMA Business	4, 16, 22	**13,492,405**	13,737,126
Data and Internet Business	4, 16, 22	**1,276,193**	1,145,514
Long Distance Business	4, 16, 22	**722,572**	500,648
Total service revenue		**46,447,372**	44,743,983
Sales of telecommunications products	4, 16, 22	**2,727,390**	2,030,036
Total revenue	4, 16, 22	**49,174,762**	46,774,019
Leased lines and network capacities	17, 22	**(4,426,832)**	(4,401,149)
Interconnection charges	22	**(5,272,777)**	(4,571,458)
Depreciation and amortisation	17	**(11,224,298)**	(11,056,494)
Employee benefit expenses	18	**(3,499,216)**	(3,319,867)
Selling and marketing	17, 22	**(9,324,379)**	(10,160,552)
General, administrative and other expenses	17, 22	**(7,035,019)**	(6,424,511)
Cost of telecommunications products sold	17, 22	**(2,881,898)**	(2,406,466)
Financial gains/(costs)	17	**18,108**	(425,527)
Interest income		**103,294**	53,533
Other gains – net		**17,679**	4,272
		5,649,424	4,065,800
Unrealised loss on changes in fair value of derivative component of convertible bonds	13	**(1,638,735)**	—
Profit before income tax		**4,010,689**	4,065,800
Income tax expenses	7	**(1,879,733)**	(1,264,851)
Profit for the period		**2,130,956**	2,800,949
Attributable to:			
Equity holders of the Company		**2,130,268**	2,799,398
Minority interest		**688**	1,551
		2,130,956	2,800,949
Basic earnings per share (RMB)	20	**0.168**	0.223
Diluted earnings per share (RMB)	20	**0.166**	0.222

The notes on pages 15 to 49 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2007
(All amounts in RMB thousands)

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium	Employee share-based compensation reserve	Revaluation reserve	Statutory reserve	Retained profits	Total	Minority interest	Total equity
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 18)	–	–	68,396	–	–	–	68,396	–	68,396
-Recognition of shares issued on exercise of options (Notes 11 & 19)	1,225	66,113	(9,125)	–	–	–	58,213	–	58,213
Dividends relating to 2005 (Note 21)	–	–	–	–	–	(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
Balance at 1 January 2007	**1,344,440**	**53,222,976**	**264,173**	**272,054**	**3,018,703**	**21,286,471**	**79,408,817**	**2,841**	**79,411,658**
Profit for the period	—	—	—	—	—	**2,130,268**	**2,130,268**	**688**	**2,130,956**
Movement of deferred tax recognised in revaluation reserve (Note 7)	—	—	—	**26,844**	—	—	**26,844**	—	**26,844**
Employee share option scheme:									
-Value of employee services (Note 18)	—	—	**71,193**	—	—	—	**71,193**	—	**71,193**
-Recognition of shares issued on exercise of options (Notes 11 & 19)	**2,632**	**166,920**	**(27,295)**	—	—	—	**142,257**	—	**142,257**
Dividends relating to 2006 (Note 21)	—	—	—	—	—	**(2,284,942)**	**(2,284,942)**	—	**(2,284,942)**
Balance at 30 June 2007	**1,347,072**	**53,389,896**	**308,071**	**298,898**	**3,018,703**	**21,131,797**	**79,494,437**	**3,529**	**79,497,966**

The notes on pages 15 to 49 are 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 2007
(All amounts in RMB thousands)

	Unaudited	
	Six months ended 30 June	
	2007	2006
Net cash generated from operating activities	**17,567,164**	18,631,302
Net cash used in investing activities	**(10,472,709)**	(7,418,638)
Net cash used in financing activities	**(10,247,316)**	(8,930,749)
Net (decrease)/increase in cash and cash equivalents	**(3,152,861)**	2,281,915
Cash and cash equivalents, beginning of period	**12,182,108**	5,471,576
Cash and cash equivalents, end of period	**9,029,247**	7,753,491
Analysis of the balances of cash and cash equivalents:		
Cash balances	**3,159**	4,848
Bank balances	**9,026,088**	7,748,643
	9,029,247	7,753,491

The notes on pages 15 to 49 are 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 principally 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 Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to 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 2007 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial information for the six months ended 30 June 2007 and 2006 have not been audited by the auditors, and the financial information for the year ended 31 December 2006 are extracted from the audited financial statements as contained in the 2006 Annual Report. The accounting policies and estimates adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in preparing the annual financial statements for the year ended 31 December 2006, except that the Group revised its accounting estimate on the amortisation period for upfront non-refundable revenue and direct incremental costs from 1 January 2007 onwards. Please refer to Note 6(a) for details. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006. 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 2006 Annual Report.

2. BASIS OF PREPARATION (continued)

As at 30 June 2007, the current liabilities of the Group had exceeded the current assets by approximately RMB27.5 billion (31 December 2006: RMB29.9 billion). Taking into account of available sources of financing 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 2007 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 2006.

The following new standards, amendments to standards and interpretations that are effective for the financial year ending 31 December 2007 and are applicable to the Group's operations:

- HKFRS 7, Financial instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosure requirement relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments;

- Amendment to HKAS 1, Presentation of financial statements – Capital disclosure (effective for annual periods beginning on or after 1 January 2007). The amendment introduces new disclosure requirement relating to the entity's objectives, policies and processes for managing capital. This amendment does not have any impact on the classification and presentation of the Group's consolidated financial statements;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. HK(IFRIC)-Int 8 does not have any significant impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group did not change the terms of these kind of contracts, HK(IFRIC)-Int 9 does not have any significant impact on the Group's consolidated financial statements; and

3. ACCOUNTING POLICIES (continued)

- HK(IFRIC)-Int 10, Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. HK(IFRIC)-Int 10 does not have any significant impact on the Group's consolidated financial statements.

Interpretation to existing standards that are effective for the financial year ending 31 December 2007 and not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the restatement approach under HKAS 29, Financial reporting in hyperinflationary economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted by the Group:

- HKFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. This standard is not expected to have any significant impact on the classification and presentation of the Group's consolidated financial statements;

- Amendment to HKAS 23, Borrowing costs (applied to borrowing cost related to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The revised HKAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for use or sale. The revised HKAS 23 does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. This amendment is not expected to have a material impact on the Group's consolidated financial statements;

3. ACCOUNTING POLICIES (continued)

- HK(IFRIC)-Int 11, Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. HK(IFRIC)-Int 11 also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. HK(IFRIC)-Int 11 is not expected to have a material impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 13, Customer loyalty programmes (effective for annual periods beginning on or after 1 July 2008). HK(IFRIC)-Int 13 provides guidance on how companies, that grant their customers loyalty award credit (often called "points") when buying goods or services should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. Management is currently assessing the impact of HK(IFRIC)-Int 13 on the Group's operations and consolidated financial statements.

Interpretations to existing standards that are not effective and not relevant for the Group's operations:

- HK(IFRIC)-Int 12, Service concession arrangements (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 12 provides guidance on the accounting by operators for public-to-private service concession arrangements. As the Group does not have any public-to-private service concession arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 14, The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 14 addresses three issues (i) how entities should determine the limit placed by HKAS 19, Employee benefits, on the amount of a surplus in a pension plan they can recognise as an asset, (ii) how a minimum funding requirement affects that limit and (iii) when a minimum fund requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under HKAS 19. As the Group does not have any defined benefit assets, HK(IFRIC)-Int 14 is not relevant to the Group's operations.

4. SEGMENT INFORMATION

The Group comprises four business segments based on the various types of telecommunications services mainly provided to customers in Mainland China. 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 capacity (Note 22.1(a));
- Data and Internet Business — the provision of domestic and international data, Internet 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 income tax. Unallocated costs primarily represent corporate expenses, income tax expense and unrealised loss on changes in fair value of derivative component of convertible bonds, whilst unallocated income mainly represents interest income that cannot be identified 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 2007						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover):							
Usage fee	17,524,593	6,873,477	857,067	171,014	—		25,426,151
Monthly fee	3,593,065	2,308,209	—	—	—		5,901,274
Interconnection revenue	2,874,997	984,956	39,874	216,954	—		4,116,781
Leased lines rental	—	—	250,617	331,427	—		582,044
Value-added services revenue	6,418,481	2,980,932	122,921	—	—		9,522,334
Other revenue	545,066	344,831	5,714	3,177	—		898,788
Total service revenue	30,956,202	13,492,405	1,276,193	722,572	—		46,447,372
Sales of telecommunications products	4,043	2,723,247	100	—	—		2,727,390
Total revenue from external customers	30,960,245	16,215,652	1,276,293	722,572	—		49,174,762
Intersegment revenue	—	—	1,143,873	914,790	—	(2,058,663)	—
Total revenue	30,960,245	16,215,652	2,420,166	1,637,362	—	(2,058,663)	49,174,762
Leased lines and network capacities	(104,208)	(4,111,549)	(181,499)	(29,576)	—		(4,426,832)
Interconnection charges	(4,883,074)	(1,723,536)	(223,997)	(500,833)	—	2,058,663	(5,272,777)
Depreciation and amortisation	(9,399,072)	(311,846)	(1,149,073)	(364,106)	(201)		(11,224,298)
Employee benefit expenses	(2,165,622)	(888,187)	(233,238)	(122,135)	(90,034)		(3,499,216)
Selling and marketing	(4,705,669)	(4,195,137)	(297,124)	(126,439)	(10)		(9,324,379)
General, administrative and other expenses	(4,859,179)	(1,570,856)	(335,436)	(255,109)	(14,439)		(7,035,019)
Cost of telecommunications products sold	(107,680)	(2,773,803)	(400)	(15)	—		(2,881,898)
Financial (costs) /gains	(62,912)	(10,505)	6,855	(2,354)	(244,898)	331,922	18,108
Interest income	58,948	5,252	11,715	3,934	355,367	(331,922)	103,294
Other gains – net	16,338	1,085	96	160	—		17,679
	4,748,115	636,570	18,065	240,889	5,785		5,649,424
Unrealised loss on changes in fair value of derivative component of convertible bonds							(1,638,735)
Segment profit before income tax	4,748,115	636,570	18,065	240,889	5,785		4,010,689
Income tax expenses							(1,879,733)
Profit for the period							2,130,956
Attributable to:							
Equity holders of the Company							2,130,268
Minority interest							688
							2,130,956
Other information:							
Provision for doubtful debts	674,573	196,381	37,251	14,949	—		923,154
Capital expenditures for segment assets (a)	4,842,233	—	957,764	786,865	2,670,349		9,257,211

	Unaudited As at 30 June 2007						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	104,087,014	7,867,419	7,888,166	16,702,784	55,955,026	(50,220,907)	142,279,502
Total segment liabilities	32,412,988	7,879,238	2,698,550	3,290,520	16,500,240		62,781,536

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

4.1 Business Segments (continued)

	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 service 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 amortisation	(9,185,954)	(331,709)	(1,166,743)	(371,799)	(289)		(11,056,494)
Employee benefit expenses	(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)
Financial 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/(losses) – net	7,732	989	(454)	(4,010)	15		4,272
	3,749,512	294,695	111,057	26,595	(116,059)		4,065,800
Unrealised loss on changes in fair value of derivative component of convertible bonds							–
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:							
Equity holders 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

	Audited As at 31 December 2006						
	GSM Business	CDMA Business	Data and Internet Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	107,288,975	7,722,626	8,300,155	16,810,768	56,477,257	(50,161,795)	146,437,986
Total segment liabilities	38,594,177	7,666,939	2,801,914	3,673,741	14,289,557		67,026,328

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

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 2007 and 2006, substantially all capital expenditures were incurred to acquire assets located in Mainland China and less than 10% of the Group's assets and operations are located outside Mainland China. Accordingly, no geographical segment information is presented.

(All amounts in RMB thousands unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Six months ended 30 June						
	2007						2006
	Buildings	Tele-communications equipment	Office furniture, fixtures and others	Leasehold improvements	Construction-in-progress ("CIP")	Total	Total
Cost or valuation:							
Beginning of period	14,568,260	166,863,048	9,616,649	1,383,033	13,331,083	205,762,073	190,879,582
Additions	163,200	23,379	165,819	—	8,904,813	9,257,211	8,662,120
Transfer from CIP	513,831	6,987,797	245,403	197,143	(7,944,174)	—	—
Disposals	(14,093)	(738,628)	(56,194)	(132,768)	—	(941,683)	(1,432,428)
End of period	15,231,198	173,135,596	9,971,677	1,447,408	14,291,722	214,077,601	198,109,274
Representing:							
At cost	2,699,167	173,135,596	9,971,677	1,447,408	14,291,722	201,545,570	195,738,501
At valuation	12,532,031	—	—	—	—	12,532,031	2,370,773
	15,231,198	173,135,596	9,971,677	1,447,408	14,291,722	214,077,601	198,109,274
Accumulated depreciation and impairment:							
Beginning of period	3,548,746	85,049,119	4,968,773	799,623	14,307	94,380,568	74,823,150
Charge for the period	73,460	9,928,629	827,734	180,895	—	11,010,718	10,837,457
Disposals	(6,319)	(666,952)	(51,155)	(132,768)	—	(857,194)	(1,354,354)
End of period	3,615,887	94,310,796	5,745,352	847,750	14,307	104,534,092	84,306,253
Net book value:							
End of period	11,615,311	78,824,800	4,226,325	599,658	14,277,415	109,543,509	113,803,021
Beginning of period	11,019,514	81,813,929	4,647,876	583,410	13,316,776	111,381,505	116,056,432

For the six months ended 30 June 2007, interest expense of approximately RMB142 million (for the six months ended 30 June 2006: RMB224 million) was capitalised to construction-in-progress.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Buildings of the Group were revalued at 31 March 2000 and 31 August 2006 respectively by independent property valuation firms, using the replacement cost or open market value approach, as appropriate. As at 30 June 2007, the accumulated revaluation surplus on the buildings resulting from all previous revaluations of the buildings amounted to approximately RMB377 million. The revaluation surplus net of the related deferred income tax of approximately RMB78 million (31 December 2006: RMB105 million) was credited to revaluation reserve in shareholders' equity. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB10.5 million for the six months ended 30 June 2007 (for the six months ended 30 June 2006: RMB4.4 million). As at 30 June 2007, the carrying value of buildings would have been approximately RMB11.308 billion (31 December 2006: RMB10.701 billion) had they been stated at historical cost less accumulated depreciation. The directors of the Company consider the fair values of these buildings were not materially different from their carrying values as at 30 June 2007.

Telecommunications equipment held under finance leases represents wireless public phone equipment. As at 30 June 2007, net book value of wireless public phone equipment under finance leases amounted to approximately RMB158 million (31 December 2006: RMB231 million).

For the six months ended 30 June 2007, the Group recognised losses on disposal of property, plant and equipment of approximately RMB58 million (for the six months ended 30 June 2006: RMB64 million).

(All amounts in RMB thousands unless otherwise stated)

6. OTHER ASSETS

	Note	**Unaudited 30 June 2007**	Audited 31 December 2006
Direct incremental costs for activating cellular subscribers	(a)	**1,800,269**	2,243,384
Customer acquisition costs of contractual CDMA subscribers	(b)	**2,000,891**	1,643,623
Long-term prepayment for lease of land		**4,837,979**	4,867,840
Purchased software		**762,470**	677,187
Prepaid rental for premises and leased lines		**1,088,962**	1,005,514
Others		**851,024**	739,021
		11,341,595	11,176,569

(a) For the six months ended 30 June 2007, amortisation of direct incremental costs for activating GSM and CDMA subscribers amounted to RMB739 million (for the six months ended 30 June 2006: RMB884 million) (Note 17), which has been included in “selling and marketing” expenses.

The direct incremental costs for activating cellular subscribers are deferred and recognised over the expected customer service period which is estimated based on the expected stabilised churn rates. On this basis, the weighted average customer service period of Cellular Business based on current estimation considering the prevailing market environment is approximately 3 years (for the six months ended 30 June 2006: 4 years). The effects of the change of accounting estimate in expected customer service period is to increase the amortisation of both upfront non-refundable revenue and direct incremental costs by RMB252 million respectively for the six months ended 30 June 2007.

(b) For the six months ended 30 June 2007, amortisation of the customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB1,823 million (for the six months ended 30 June 2006: RMB2,391 million) (Note 17) which was recorded in “selling and marketing” expenses. As at 30 June 2007, the carrying amount of unamortised customer acquisition costs of contractual CDMA subscribers totaled approximately RMB2,478 million (31 December 2006: RMB2,102 million), with approximately RMB2,001 million (31 December 2006: RMB1,644 million) recorded in “other assets” (for contracts expiring over 1 year) and approximately RMB477 million (31 December 2006: RMB458 million) recorded in “prepayments and other current assets” (for contracts expiring within 1 year) (Note 10).

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION

Provision for taxation represents:

	Unaudited	
	Six months ended 30 June	
	2007	2006
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	**4,776**	3,160
– Outside Hong Kong	**2,268,236**	1,563,254
	2,273,012	1,566,414
Deferred taxation	**(393,279)**	(301,563)
	1,879,733	1,264,851

Reconciliation between applicable PRC statutory tax rate and the effective tax rate is as follows:

		Unaudited	
		Six months ended 30 June	
	Note	**2007**	2006
PRC statutory tax rate of 33%		**33.0%**	33.0%
Non-deductible expenses		**0.7%**	1.9%
Non-deductible unrealised loss on changes in fair value of derivative component of convertible bonds		**13.5%**	—
Effect of change of tax rate under new PRC enterprise income tax law	(d)	**2.0%**	—
Non-taxable income			
– Connection fee		**—**	(1.1%)
– Interest income		**(0.2%)**	(0.1%)
Impact of PRC preferential tax rates		**(2.1%)**	(2.6%)
Effective tax rate		**46.9%**	31.1%

(All amounts in RMB thousands unless otherwise stated)

7. TAXATION (continued)

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

	Note	Unaudited Six months ended 30 June 2007	2006
Net deferred tax assets after offsetting:			
– Beginning of period		**309,668**	335,234
– Deferred tax credited to the income statement	(e)	**392,790**	301,181
– Deferred tax credited to equity		**26,844**	—
– End of period		**729,302**	636,415
The deferred tax liabilities that can not be offset:			
– Beginning of period		**(5,879)**	(5,613)
– Deferred tax credited to the income statement		**489**	382
– End of period		**(5,390)**	(5,231)

(a) China Unicom International Limited ("Unicom International", a subsidiary of the Company) assessed its income tax liability in Hong Kong using the tax rate of 17.5% (for the six months ended 30 June 2006: 17.5%). The income tax liability of Unicom International amounted to approximately RMB4.8 million for the six months ended 30 June 2007 (for the six months ended 30 June 2006: RMB3.2 million).

(b) Various provincial/municipal branches of China Unicom Corporation Limited ("CUCL", a subsidiary of the Company) were granted preferential tax treatment by relevant tax authorities to assess their enterprise income tax at the rates of 13% or 18% in Mainland China for the six months ended 30 June 2007 and 2006. The remaining provincial branches were assessed at the standard tax rate of 33%.

(c) For the six months ended 30 June 2007, Unicom Huasheng Telecommunications Technology Company Limited ("Unicom Huasheng", a subsidiary of CUCL) and its branches are subject to income tax at the statutory 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.

(d) Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is expected to be realised or the liability is expected to be settled, resulting in a decrease of net deferred tax assets in balance sheet as of 30 June 2007 and an increase of deferred taxation charged to the income statement for the six months ended 30 June 2007, amounting to approximately RMB78 million.

(e) Including the effect of change of tax rate on net deferred tax assets of approximately RMB78 million as mentioned in Note 7(d) above.

(All amounts in RMB thousands unless otherwise stated)

8. INVENTORIES

	Unaudited 30 June 2007	Audited 31 December 2006
Handsets	**1,751,480**	1,462,210
Telephone cards	**531,627**	522,161
Others	**310,438**	349,531
	2,593,545	2,333,902

The cost of inventories recognised as expense and included in cost of telecommunications products sold amounted to approximately RMB2,882 million (for the six months ended 30 June 2006: RMB2,406 million).

9. ACCOUNTS RECEIVABLE, NET

	Unaudited 30 June 2007	Audited 31 December 2006
Accounts receivable for GSM services	**3,611,307**	3,416,679
Accounts receivable for CDMA services	**2,048,018**	2,264,188
Accounts receivable for Data and Internet services	**422,683**	323,369
Accounts receivable for Long Distance services	**451,890**	458,402
Sub-total	**6,533,898**	6,462,638
Less: Provision for doubtful debts for GSM services	**(2,065,292)**	(1,841,212)
Provision for doubtful debts for CDMA services	**(845,750)**	(905,094)
Provision for doubtful debts for Data and Internet services	**(212,616)**	(219,983)
Provision for doubtful debts for Long Distance services	**(76,932)**	(77,006)
Sub-total	**(3,200,590)**	(3,043,295)
	3,333,308	3,419,343

The aging analysis of accounts receivable is as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
Within one month	**2,167,631**	2,349,963
More than one month to three months	**945,885**	906,221
More than three months to one year	**1,867,929**	1,709,954
More than one year	**1,552,453**	1,496,500
	6,533,898	6,462,638

(All amounts in RMB thousands unless otherwise stated)

9. ACCOUNTS RECEIVABLE, NET (continued)

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

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

Provision for doubtful debts is analysed as follows:

	Unaudited Six months ended 30 June	
	2007	2006
Balance, beginning of period	**3,043,295**	3,088,551
Provision for the period	**923,154**	848,032
Written-off during the period	**(765,859)**	(1,510,838)
Balance, end of period	**3,200,590**	2,425,745

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	**Unaudited 30 June 2007**	Audited 31 December 2006
Prepaid rental		**426,849**	364,622
Deposits and prepayments		**735,940**	732,774
Advances to employees		**185,978**	154,866
Customer acquisition costs of contractual CDMA subscribers	6(b)	**477,347**	458,095
Others		**184,175**	277,662
		2,010,289	1,988,019

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

	Unaudited 30 June 2007	Audited 31 December 2006
Within one year	**1,882,579**	1,892,558
More than one year	**127,710**	95,461
	2,010,289	1,988,019

(All amounts in RMB thousands unless otherwise stated)

11. SHARE CAPITAL

	Unaudited 30 June 2007 HKD'000	Audited 31 December 2006 HKD'000
Authorised:		
30,000,000,000 ordinary shares of HKD0.1 each	**3,000,000**	3,000,000

Issued and fully paid:	**Number of shares '000**	**Ordinary shares, par value of HKD0.1 each HKD'000**	**Share capital**	**Share premium**	**Total**
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
At 1 January 2007	**12,680,989**	**1,268,098**	**1,344,440**	**53,222,976**	**54,567,416**
Employee share option scheme – Recognition of shares issued on exercise of options (Note 19)	**26,800**	**2,680**	**2,632**	**166,920**	**169,552**
At 30 June 2007	**12,707,789**	**1,270,778**	**1,347,072**	**53,389,896**	**54,736,968**

Increase of 26,800,000 ordinary shares for the six months ended 30 June 2007 (for the six months ended 30 June 2006: 11,840,000 shares) represented the ordinary shares issued on exercise of share options under the Company's share option scheme (Note 19).

(All amounts in RMB thousands unless otherwise stated)

12. LONG-TERM BANK LOANS

	Interest rates and final maturity	**Unaudited 30 June 2007**	Audited 31 December 2006
RMB denominated bank loans	Fixed interest rates ranging from 3.60% to 5.58% (for six months ended 30 June 2006: 3.60% to 5.58%) per annum with maturity through 2010 (31 December 2006: maturity through 2010)		
– unsecured		**315,000**	315,000
USD denominated bank loans	Floating interest rates of USD LIBOR plus interest margin of 0.35% to 0.44% (for six months ended 30 June 2006: 0.28% to 0.44%) per annum with maturity through 2010 (31 December 2006: maturity through 2010) (a)		
– unsecured		**3,807,750**	7,808,699
Sub-total		**4,122,750**	8,123,699
Less: Current portion		**(80,000)**	(3,984,350)
		4,042,750	4,139,349

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

	Unaudited 30 June 2007	Audited 31 December 2006
Balances due:		
– not later than one year	**80,000**	3,984,350
– later than one year and not later than two years	**2,319,650**	2,377,609
– later than two years and not later than five years	**1,723,100**	1,761,740
	4,122,750	8,123,699
Less: Portion classified as current liabilities	**(80,000)**	(3,984,350)
	4,042,750	4,139,349

(All amounts in RMB thousands unless otherwise stated)

12. LONG-TERM BANK LOANS (continued)

(a) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD700 million. This facility was split into 3 tranches (i) USD200 million 3-year loan; (ii) USD300 million 5-year loan; and (iii) USD200 million 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. The Company has fully repaid the USD200 million 3-year loan in 2006.

In addition, on 25 February 2004, CUCL signed an agreement with various financial institutions for a long-term syndicated loan of USD500 million to finance its working capital and network construction expenditure. This facility is repayable in 3 years and carries an interest rate of 0.40% over US dollar LIBOR per annum. In February 2007, CUCL has fully repaid the USD500 million loan.

(b) The effective interest rate of long-term bank loans denominated in RMB at 30 June 2007 was 4.22% (31 December 2006: 4.22%), and the effective interest rates of long-term bank loans denominated in USD at 30 June 2007 ranged from 5.71% to 5.80% (31 December 2006: from 5.72% to 5.81%).

(c) The carrying amount of long-term bank loans approximated their fair value.

13. CONVERTIBLE BONDS

The carrying values of the derivative component and liability component of the convertible bonds as at 30 June 2007 and 31 December 2006 are as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
Liability component	**7,126,091**	7,117,035
Derivative component	**4,746,372**	3,207,914
Carrying value of convertible bonds	**11,872,463**	10,324,949
Number of conversion shares at the issuance date (shares)	**899,745,075**	899,745,075

No conversion of the convertible bonds has occurred up to 30 June 2007. Subsequent to the balance sheet date, the above convertible bonds have been fully converted. Please refer to Note 24 for details.

13. CONVERTIBLE BONDS (continued)

On 5 July 2006, the Company issued a zero coupon convertible bonds with an aggregate principal amount of USD1 billion (the “Convertible Bonds”) to SK Telecom Co., Ltd., (“SK Telecom”), an overseas telecommunications service operator in Korea. The bondholder has the option to convert the Convertible Bonds into shares of the Company with a par value of HKD0.10 each at a conversion price of HKD8.63 (an equivalent of approximately USD1.11) per share subject to adjustment for, among other matters, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, rights issues and other events, which have diluting effects on the issued share capital of the Company at any time from and including the first anniversary after the date of issuance up to the close of business in Hong Kong on the day falling seven days prior to 5 July 2009, the maturity date of the Convertible Bonds. Unless previously redeemed, converted, or purchased and cancelled, the Convertible Bonds will be redeemed at 104.26% of its principal amount on 5 July 2009.

At any time after 5 July 2007 or on the occurrence of a relevant event as defined in the Convertible Bonds agreement, a bondholder may freely assign or transfer any of the Convertible Bonds registered in its name to any third party provided that no assignment or transfer may be made to a person who is (i) a fixed line or mobile telecommunications operator in the PRC (a competitor operator), or (ii) directly or indirectly an affiliate of a competitor operator.

On 5 July 2008 (the Put Option Date), each bondholder will have the right at such holder’s option, to require the Company to redeem all or some of the Convertible Bonds held by such holder on the Put Option Date at 102.82% of the principal amount. To exercise such right, the holder of the relevant Convertible Bonds must deliver its notice of redemption together with the Certificate evidencing the Convertible Bonds to be redeemed not later than 40 days prior to the Put Option Date.

As the functional currency of the Group is RMB, the conversion of the Convertible Bonds denominated in Hong Kong Dollars will not result in settlement by the exchange of a fixed amount of cash in RMB, the functional currency of the Group, for a fixed number of the Company’s shares. In accordance with the requirements of HKAS 39, Financial Instruments – Recognition and Measurement, the bond contract must be separated into two components: a derivative component consisting of the conversion option and a liability component consisting of the straight debt element of the bonds. The conversion option is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs.

(All amounts in RMB thousands unless otherwise stated)

13. CONVERTIBLE BONDS (continued)

The fair value of the derivative component of the Convertible Bonds was calculated using the Binomial model with the major inputs used in the model as at 30 June 2007 and 31 December 2006 as follows:

	30 June 2007	31 December 2006
Stock price	**HKD13.46**	HKD11.40
Exercise price	**HKD8.63**	HKD8.63
Volatility	**37%**	31%
Dividend yield	**2%**	2%
Risk free rate	**4.23-4.35%**	3.51-3.55%
Expected life	**1.27-2.02 years**	1.76-2.51 years
Option value	**HKD5.40**	HKD3.56

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 31 December 2006 to 30 June 2007 resulted in a fair value loss of approximately RMB1,639 million (for the six months ended 30 June 2006: Nil), which has been recorded as the "Unrealised loss on changes in fair value of derivative component of Convertible Bonds" in the income statement for the six months ended 30 June 2007.

The initial carrying amount of the liability component is the residual amount after deducting the issuance cost of the Convertible Bonds and the fair value of the derivative component as at 5 July 2006, and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.53% to the adjusted liability component. Should the aforesaid derivative component not be separated out and the entire Convertible Bonds considered as the liability component, the effective interest rate would have been 1.46%.

14. PAYABLES AND ACCRUED LIABILITIES

	Note	**Unaudited 30 June 2007**	Audited 31 December 2006
Payables to contractors and equipment suppliers		**15,584,212**	16,184,898
Accrued expenses		**2,913,201**	2,236,137
Payables to telecommunications product suppliers		**2,809,866**	1,875,356
Customer deposits		**2,018,785**	1,857,849
Maintenance expense payables		**1,392,608**	1,208,902
Salary and welfare payables		**1,025,987**	601,270
Amounts due to services providers/content providers		**897,786**	797,586
Provision for subscriber bonus points expenses		**621,389**	555,586
Others	(a)	**942,543**	972,490
		28,206,377	26,290,074

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

(All amounts in RMB thousands unless otherwise stated)

14. PAYABLES AND ACCRUED LIABILITIES (continued)

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

	Unaudited 30 June 2007	Audited 31 December 2006
Less than six months	**20,692,169**	20,162,555
Six months to one year	**5,058,333**	3,981,712
More than one year	**2,455,875**	2,145,807
	28,206,377	26,290,074

15. SHORT-TERM BONDS

In March 2006, CUCL completed an offering of short-term bonds of RMB1.0 billion with a maturity period of 365 days, which was repaid in March 2007.

In July 2006, CUCL completed another offering of short-term bonds in an aggregate amount of RMB6.0 billion, consisting of three tranches of RMB2.0 billion each, with a maturity period of 180 days, 270 days and 365 days. The first two tranches with maturity period of 180 days and 270 days were repaid in January 2007 and April 2007, respectively.

The effective interest rate of the short-term bonds as at 30 June 2007 was 3.35% (31 December 2006: 3.19%).

16. REVENUE (TURNOVER)

Revenue primarily comprises usage fees, monthly fees, interconnection revenue, leased line rental income, 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 and the provincial price regulatory authorities.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to RMB1,170 million for the six months ended 30 June 2007 (for six months ended 30 June 2006: RMB1,161 million).

(All amounts in RMB thousands unless otherwise stated)

17. EXPENSES BY NATURE

The following expenses are analysed by nature:

		Unaudited	
		Six months ended 30 June	
	Note	**2007**	2006
Depreciation on property, plant and equipment	5	**11,010,718**	10,837,457
Amortisation of other assets		**213,580**	219,037
Total depreciation and amortisation		**11,224,298**	11,056,494
Amortisation of direct incremental costs for activating cellular subscribers	6(a)	**738,601**	883,795
Amortisation of customer acquisition costs of contractual CDMA subscribers	6(b)	**1,822,732**	2,391,425
Provision for doubtful debts:			
– GSM Business		**674,573**	497,209
– CDMA Business		**196,381**	267,856
– Data and Internet Business		**37,251**	61,468
– Long Distance Business		**14,949**	21,499
Total provision for doubtful debts	9	**923,154**	848,032
Write-down/(reversal of write-down) of inventories to net realisable value		**114,526**	(19,082)
Cost of inventories		**2,881,898**	2,406,466
Operating lease charges:			
– Leased lines		**352,365**	335,021
– CDMA network capacity	22.1	**4,074,467**	4,066,128
– Other lease expenses		**822,617**	754,202
Total operating lease expenses		**5,249,449**	5,155,351
Other expenses:			
– Repair and maintenance		**1,530,854**	1,506,562
– Travelling, entertainment and meeting		**375,077**	322,209
– Power and water charges		**1,403,324**	1,214,789
– Vehicle usage expenses		**307,904**	252,919
– Office expenses		**559,337**	511,731
Financial (gains)/costs:			
– Interest expense		**294,277**	475,986
Including: Interest expense on Convertible Bonds		**187,222**	—
– Exchange gains, net		**(337,433)**	(71,428)
– Bank charges		**25,048**	20,969
Total financial (gains)/costs		**(18,108)**	425,527

(All amounts in RMB thousands unless otherwise stated)

18. EMPLOYEE BENEFIT EXPENSES

	Note	Unaudited Six months ended 30 June 2007	2006
Employee benefit expenses:			
– Salaries and wages		**2,752,169**	2,570,302
– Contributions to defined contribution pension schemes		**276,285**	223,906
– Contributions to supplementary defined contribution pension schemes		**40,076**	28,498
– Monetary housing benefits		**17,286**	32,066
– Contributions to other housing fund		**141,725**	168,095
– Other housing benefits		**200,482**	228,604
– Share-based compensation costs	19	**71,193**	68,396
Total		**3,499,216**	3,319,867

19. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") and a fixed award pre-global offering share options 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 and 11 May 2007.

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

	Unaudited Six months ended 30 June 2007		2006	
	Average exercise price in HKD per share	**Number of share options involved**	Average exercise price in HKD per share	Number of share options involved
Balance, beginning of period	**6.95**	**314,256,000**	6.51	257,602,000
Granted	**—**	**—**	6.35	167,466,000
Forfeited	**5.84**	**(1,829,200)**	6.73	(2,060,000)
Exercised	**5.41**	**(26,800,000)**	4.76	(11,840,000)
Balance, end of period	**7.10**	**285,626,800**	6.49	411,168,000

Employee share options exercised for the six months ended 30 June 2007 resulted in 26,800,000 shares being issued (for the six months ended 30 June 2006: 11,840,000 shares), with exercise proceeds of approximately RMB142 million (for the six months ended 30 June 2006: RMB58 million).

As at 30 June 2007, out of the 285,626,800 outstanding share options (31 December 2006: 314,256,000), 88,095,800 share options (31 December 2006: 115,683,600) were exercisable, and the weighted average exercise price was HKD8.93 (31 December 2006: HKD8.09).

(All amounts in RMB thousands unless otherwise stated)

19. SHARE OPTION SCHEME (continued)

As at 30 June 2007, information on the outstanding share options is summarised as follows:

Date of options grant	The period during which an option may be exercised	The price per share to be paid on exercise of options	Number of share options outstanding as at 30 June 2007	Number of share options outstanding as at 31 December 2006
Share options granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000	22 June 2002 to 21 June 2010	HKD15.42	**24,178,000**	24,178,000
Share options granted under the Share Option Scheme:				
30 June 2001	30 June 2001 to 22 June 2010	HKD15.42	**6,292,000**	6,292,000
10 July 2002	10 July 2003 to 9 July 2008	HKD6.18	**5,708,000**	11,540,400
21 May 2003	21 May 2004 to 20 May 2009	HKD4.30	**15,886,800**	25,611,600
20 July 2004	20 July 2005 to 19 July 2010	HKD5.92	**68,086,000**	80,224,000
21 December 2004	21 December 2005 to 20 December 2010	HKD6.20	**654,000**	654,000
15 February 2006	15 February 2008 to 14 February 2012	HKD6.35	**164,822,000**	165,756,000
			285,626,800	314,256,000

For the six months ended 30 June 2007, employee share-based compensation costs amortised over the vesting periods of the share options amounted to approximately RMB71 million (for the six months ended 30 June 2006: RMB68 million).

19. SHARE OPTION SCHEME (continued)

Details of share options exercised for the six months ended 30 June 2007 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective days immediately before the exercise of options HKD	Proceeds received HKD	Number of shares involved
10 July 2002	6.18	11.65	34,961,496	5,657,200
21 May 2003	4.30	11.73	40,260,040	9,362,800
20 July 2004	5.92	11.76	69,737,600	11,780,000
			144,959,136	26,800,000

20. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2007 and 2006 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the periods.

Diluted earnings per share for the six months ended 30 June 2007 and 2006 were computed by dividing the profit attributable to equity holders 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 potential ordinary shares arose from (i) share options granted under the amended Pre-Global Offering Share Option Scheme; (ii) share options granted under the amended Share Option Scheme and (iii) the Convertible Bonds. The potential ordinary shares which are not dilutive mainly arose from share options granted under the amended Pre-Global Offering Share Option Scheme and the Convertible Bonds and are therefore excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

	Unaudited					
	Six months ended 30 June					
	2007			2006		
	Profit attributable to equity holders RMB'000	**Shares in thousands**	**Per share amount RMB**	Profit attributable to equity holders RMB'000	Shares in thousands	Per share amount RMB
Basic earnings	**2,130,268**	**12,690,576**	**0.168**	2,799,398	12,579,578	0.223
Effect of conversion of share options	**—**	**105,918**		—	41,083	
Diluted earnings	**2,130,268**	**12,796,494**	**0.166**	2,799,398	12,620,661	0.222

(All amounts in RMB thousands unless otherwise stated)

20. EARNINGS PER SHARE (continued)

To enable an investor to better understand the Group's results, below is a table reconciling earnings per share to adjusted earnings per share, excluding the unrealised loss on changes in fair value of derivative component of Convertible Bonds which is not considered to be an indicator of the Group's operating performance.

	Unaudited	
	Six months ended 30 June	
	2007	2006
Profit attributable to equity holders	**2,130,268**	2,799,398
Adjustments for:		
Unrealised loss on changes in fair value of derivative component of Convertible Bonds	**1,638,735**	—
Profit attributable to equity holders (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds)	**3,769,003**	2,799,398
Adjusted basic earnings per share (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds) (RMB)	**0.297**	0.223
Adjusted diluted earnings per share (excluding unrealised loss on changes in fair value of derivative component of Convertible Bonds) (RMB)	**0.295**	0.222

21. DIVIDENDS

At the annual general meeting held on 11 May 2007, the shareholders of the Company approved the payment of a final dividend of RMB0.18 per ordinary share for the year ended 31 December 2006 totaling approximately RMB2,285 million (for the year ended 31 December 2005: approximately RMB1,384 million), which has been reflected as a reduction of retained profits for the six months ended 30 June 2007. As of 30 June 2007, such dividends have been paid by the Company, except for dividends payable of RMB673 million due to Unicom BVI. The Company has fully settled the dividends payable to Unicom BVI subsequent to 30 June 2007.

22. RELATED PARTY TRANSACTIONS

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-owned enterprises and their subsidiaries, in addition to Unicom Group, directly or indirectly controlled by the PRC government are also 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 telecommunications service operators, equipment vendors, construction vendors, 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 network and on transmission lines leased from other Domestic Carriers.

22. RELATED PARTY TRANSACTIONS (continued)

22.1 Unicom Group and its subsidiaries

The table set forth below summarises the names of significant related parties (excluding Domestic Carriers and other major state-owned enterprises which are summarised in Notes 22.2 and 22.3 respectively) and nature of relationship with the Company as at 30 June 2007:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate holding company
Unicom NewSpace Corporation Limited ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Company Limited ("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 Corporation Limited ("Unicom New Horizon")	A subsidiary of Unicom Group
Unicom New Guoxin Telecommunications Corporation Limited ("New Guoxin")	A subsidiary of Unicom Group
China Information Technology Designing & Consulting Institute ("CITDCI") (Newly became a wholly-owned subsidiary of Unicom Group in December 2006)	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)

22. RELATED PARTY TRANSACTIONS (continued)

22.1 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 directors' opinion, these transactions were carried out in the ordinary course of business.

	Unaudited	
	Six months ended 30 June	
	2007	2006
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenues	**90,237**	115,675
Interconnection and roaming charges	**28,993**	29,239
Rental income for premises and facilities	**7,247**	9,554
Charge for operator-based subscriber value-added services by New Guoxin	**168,665**	180,348
Charge for customer services by New Guoxin	**415,226**	333,038
Agency fee incurred for subscriber development services by New Guoxin	**32,663**	6,821
CDMA network capacity lease rental	**4,074,467**	4,066,128
Constructed capacity related cost of CDMA network	**81,166**	84,018
Sales of CDMA handsets	**82,639**	42,488
Charge for cellular subscriber value-added services by UNISK and Unicom NewSpace	**21,585**	23,540
Rental charge for premises, equipment and facilities	**14,284**	14,030
Charge for the international gateway services	**7,209**	9,552
Revenue for leasing of transmission line capacity	**13,251**	8,229
Purchase of telecom cards	**320,615**	410,921
Agency fee incurred for procurement of telecommunications equipment	**6,833**	10,389
Charge for engineering design and technical services by CITDCI	**23,918**	—

22. RELATED PARTY TRANSACTIONS (continued)

22.1 Unicom Group and its subsidiaries (continued)

(a) *Transactions with Unicom Group and its subsidiaries (continued)*

On 26 October 2006, CUCL entered into the new agreements, "2006 Comprehensive Services Agreement" and "2006 CDMA Lease Agreement", with Unicom Group and Unicom New Horizon to continue to carry out the related party transactions. The new agreements have been approved by the minority shareholders of the Company on 1 December 2006, and become effective from 1 January 2007. Changes of the key terms between the new agreements and the previous agreements are set out as follows:

- 2006 CDMA Lease Agreement

  Pursuant to 2006 CDMA Lease Agreement, the CDMA lease has an initial term of one year, renewable for additional one-year term at the Group's option. The lease fee has been determined based on the same pricing mechanism as under the CDMA lease agreement entered among Unicom Group, Unicom New Horizon and CUCL on 24 March 2005 ("2005 CDMA Lease Agreement"), but with a conditional increase in the lease fee of 1% from 30% to 31% if the audited CDMA profit before taxation of CUCL for the relevant year is not less than the audited CDMA profit before taxation of CUCL for the year 2006 as set out in the relevant annual audited financial statements.

- 2006 Comprehensive Services Agreement

  Pursuant to 2006 Comprehensive Services Agreement, the customer service fees payable should be calculated on the same basis as under the previous agreements, except Guangdong has been added as one of the economically developed metropolises in determining the cost per operator seat.

For details of the above, refer to Note 33 to the audited financial statements for the year ended 31 December 2006 as set out in the 2006 Annual Report of the Company.

(b) *Amounts due from and to related parties/Unicom Group*

Amounts due from and to related parties or Unicom Group and its subsidiaries are unsecured, interest free, repayable on demand/on contract terms and arise in the ordinary course of business.

(All amounts in RMB thousands unless otherwise stated)

22. RELATED PARTY TRANSACTIONS (continued)

22.2 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	
	2007	2006
Interconnection revenue	**3,274,662**	2,517,077
Interconnection charges	**5,021,505**	4,380,137
Leased line revenue	**18,193**	25,947
Leased line charges	**192,553**	150,551

(b) Amounts due from and to Domestic Carriers

	Unaudited 30 June 2007	Audited 31 December 2006
Amounts due from Domestic Carriers		
– Receivables for interconnection revenue and leased line revenue	**241,788**	158,894
– Less: Provision for doubtful debts	**(20,398)**	(20,373)
	221,390	138,521
Amounts due to Domestic Carriers		
– Payables for interconnection charges and leased lines charges	**934,359**	850,975

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

(All amounts in RMB thousands unless otherwise stated)

22. RELATED PARTY TRANSACTIONS (continued)

22.3 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	
	2007	2006
Purchase of CDMA handsets	**531,360**	263,290
Construction and installation fee	**194,468**	174,580
Maintenance and repair expense	**18,403**	39,859
Purchase of equipment	**413,615**	741,317
Line leasing revenue	**111,975**	91,197
Financial income/costs, include:		
– Interest income	**94,755**	37,994
– Interest expense	**6,756**	578,582
Short-term bank loan received	**—**	610,000
Long-term bank loan received	**—**	1,285,000
Short-term bank loan repaid	**—**	3,677,661
Long-term bank loan repaid	**—**	4,805,377

(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 2007	Audited 31 December 2006
Current assets		
Prepayment and other current assets	**299,467**	288,930
Short-term bank deposit	**159,900**	21,432
Cash and cash equivalents	**8,730,833**	11,994,563
Non-current liabilities		
Long-term bank loans	**235,000**	235,000
Current liabilities		
Payables and accrued liabilities	**497,240**	661,403
Current portion of long-term bank loans	**80,000**	80,000

(All amounts in RMB thousands unless otherwise stated)

22. RELATED PARTY TRANSACTIONS (continued)

22.4 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2007 and 2006 are set out below:

	Unaudited	
	Six months ended 30 June	
	2007	2006
Non-executive directors:		
Fees	**932**	954
Other benefits (a)	**305**	393
	1,237	1,347
Executive directors:		
Fees	**—**	—
Other emoluments		
– Salaries and allowances	**6,385**	6,263
– Bonuses paid and payable	**4,778**	3,204
– Other benefits (a)	**2,098**	1,477
– Contributions to pension schemes	**83**	38
	13,344	10,982
	14,581	12,329

(a) Other benefits represent the share options granted to the directors of the Company under the Company's share option scheme.

Effective from 1 January 2007, the Company changes the presentation basis of the disclosure of other benefits by using share-based compensation costs recognized for the relevant period, which is consistent with the Group's accounting policies as set out in Note 2.15(c) to the audited financial statements for the year ended 31 December 2006 in the 2006 Annual Report. In previous years, other benefits represented the difference between the market price of the options and the exercise price for the options exercised during the period. Accordingly, the comparative disclosure information of other benefits for the period ended 30 June 2006 has been revised by the Company to conform with the current period presentation.

(All amounts in RMB thousands unless otherwise stated)

23. CONTINGENCIES AND COMMITMENTS

23.1 Capital commitments

As at 30 June 2007 and 31 December 2006, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited			Audited
	30 June 2007			31 December 2006
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**836,395**	**2,319,004**	**3,155,399**	2,698,625
Authorised but not contracted for	**1,062,097**	**3,240,089**	**4,302,186**	943,280
Total	**1,898,492**	**5,559,093**	**7,457,585**	3,641,905

As at 30 June 2007, approximately RMB290 million (31 December 2006: RMB203 million) of capital commitment outstanding was denominated in US dollars, equivalent to USD38 million (31 December 2006: USD26 million).

23.2 Operating lease commitments

As at 30 June 2007 and 31 December 2006, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	Unaudited				Audited
	30 June 2007				31 December 2006
	Land and buildings	**Equipment**	**CDMA network capacity (a)**	**Total**	Total
Leases expiring:					
– not later than one year	**874,303**	**135,057**	**6,863,448**	**7,872,808**	8,336,564
– later than one year and not later than five years	**2,407,575**	**400,154**	**3,667,021**	**6,474,750**	1,967,755
– later than five years	**1,327,469**	**108,728**	**—**	**1,436,197**	1,107,791
Total	**4,609,347**	**643,939**	**10,530,469**	**15,783,755**	11,412,110

23. CONTINGENCIES AND COMMITMENTS (continued)

23.2 Operating lease commitments (continued)

(a) Under the 2006 CDMA Lease Agreement, the annual lease fee of the CDMA network shall not be less than a certain minimum level ("the Minimum Lease Fee") regardless of the amount of CDMA service revenue for that year. The Minimum Lease Fee for 2007 shall be 90% of the total amount of lease fee paid by the Group to Unicom New Horizon for 2006 pursuant to the 2005 CDMA Lease Agreement. The Minimum Lease Fee for 2008 shall be 90% of the total amount of lease fee paid by the Group to Unicom New Horizon for 2007 pursuant to the 2006 CDMA Lease Agreement. On 29 June 2007, the Group renewed the lease with Unicom New Horizon for another year until 31 December 2008. The above CDMA network capacity commitments are the estimated Minimum Lease Fee.

23.3 Commitment to purchase CDMA handsets

As at 30 June 2007, the Group committed to purchase CDMA handsets from third party vendors amounting to approximately RMB912 million (31 December 2006: RMB1,237 million).

24. EVENT AFTER BALANCE SHEET DATE

On 20 August 2007, the Company received a notice delivered by SK Telecom pursuant to the terms and conditions of the Convertible Bonds for the conversion in full of the Convertible Bonds into the Company's shares. Accordingly, the Company will allot and issue 899,745,075 ordinary shares of HKD0.10 each of the Company to SK Telecom. For the details of the Convertible Bonds, please refer to Note 13.

25. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 23 August 2007.

Independent Review Report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 49, which comprises the consolidated condensed balance sheet of China Unicom Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,

23 August 2007

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, 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 were amended on 13 May 2002 and 11 May 2007 respectively. Under the amended Share Option Scheme:

(1) share options may be granted to employees including executive directors of the Company and any of the non-executive directors;

(2) any grant of share options to a Connected Person (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options);

(3) 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;

(4) the option period commences on any day after the date on which an option is offered, but may not exceed 10 years from the offer date; and

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

(a) the nominal value of the shares;

(b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) as stated in the Hong Kong Stock Exchange’s quotation sheets on the offer date in respect of the options; and

(c) 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.

Up to 30 June 2007, 261,448,800 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 9,848,000 share options are being held by the directors and their associates. All of the options granted and outstanding as at 30 June 2007 are governed by the amended terms of the Share Option Scheme as stated herein.

For the six months ended 30 June 2007, 26,800,000 options granted under the Share Option Scheme have been exercised. Among which, 5,657,200 options were exercised at the price of HKD6.18 per share, 9,362,800 options were exercised at the price of HKD4.30 per share, 11,780,000 options were exercised at the price of HKD5.92 per share.

2. Pre-global Offering Share Option Scheme

On 1 June 2000, the Company also adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"). In order to synchronise the administration of the options granted under the Pre-Global Offering Share Option Scheme with the Share Option Scheme, the Pre-Global Offering Share Option Scheme was also amended on 13 May 2002 and 11 May 2007. The amended terms of the Pre-Global Offering Share Option Scheme are substantially the same as the Share Option Scheme stated above except that:

(1) The price of a share payable upon the exercise of an option shall be HKD15.42 (excluding the brokerage fee and the Hong Kong Stock Exchange transaction levy);

(2) 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

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

Up to 30 June 2007, 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. All of the options granted and outstanding as at 30 June 2007 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

Up to 30 June 2007, no options granted under the Pre-Global Offering Share Option Scheme have been exercised.

3. Financial Impact and Valuation of Share Options Granted

The Company recognised share-based employee compensation costs over the vesting period based on the estimated fair value of share options at the grant date by using the Black-Scholes valuation model in which the impact of any non-market vesting conditions is not considered.

4. Directors', Chief Executive's and Employees' Interest under the Pre-Global Offering Share Option Scheme and Share Option Scheme

	Capacity and Nature	Date of Options Granted[4]	Price per Share to be Paid on Exercise of Options (HKD)	No. of Options Outstanding as at 1 January 2007[1]	No. of Options Granted During the Period[1]	No. of Options Exercised During the Period[1]	No. of Options Forfeited During the Period[1]	No. of Options Outstanding as at 30 June 2007[1]
Directors								
Chang Xiaobing	Beneficial owner (Personal)	21 December 2004	6.20	526,000	–	–	–	526,000
		15 February 2006	6.35	800,000	–	–	–	800,000
Shang Bing	Beneficial owner (Personal)	22 June 2000	15.42	204,400	–	–	–	204,400
		10 July 2002	6.18	292,000	–	292,000	–	–
		21 May 2003	4.30	72,000	–	72,000	–	–
		20 July 2004	5.92	292,000	–	–	–	292,000
		21 December 2004	6.20	128,000	–	–	–	128,000
		15 February 2006	6.35	700,000	–	–	–	700,000
Tong Jilu	Beneficial owner (Personal)	30 June 2001	15.42	292,000	–	–	–	292,000
		10 July 2002	6.18	292,000	–	292,000	–	–
		21 May 2003	4.30	72,000	–	72,000	–	–
		20 July 2004	5.92	292,000	–	–	–	292,000
		15 February 2006	6.35	500,000	–	–	–	500,000
	Beneficial owner (Spouse)	21 May 2003	4.30	32,000	–	32,000	–	–
		20 July 2004	5.92	32,000	–	–	–	32,000
		15 February 2006	6.35	40,000	–	–	–	40,000
Li Jianguo[2]	Beneficial owner (Personal)	30 June 2001	15.42	292,000	–	–	–	292,000
		10 July 2002	6.18	176,000	–	176,000	–	–
		21 May 2003	4.30	80,000	–	80,000	–	–
		20 July 2004	5.92	292,000	–	–	–	292,000
		15 February 2006	6.35	500,000	–	–	–	500,000
Yang Xiaowei	Beneficial owner (Personal)	10 July 2002	6.18	122,000	–	–	–	122,000
		20 July 2004	5.92	292,000	–	–	–	292,000
		15 February 2006	6.35	500,000	–	–	–	500,000
Li Zhengmao	Beneficial owner (Personal)	22 June 2000	15.42	292,600	–	–	–	292,600
		10 July 2002	6.18	176,000	–	176,000	–	–
		20 July 2004	5.92	292,000	–	–	–	292,000
		15 February 2006	6.35	500,000	–	–	–	500,000
Li Gang	Beneficial owner (Personal)	15 February 2006	6.35	500,000	–	–	–	500,000
Zhang Junan	Beneficial owner (Personal)	15 February 2006	6.35	500,000	–	–	–	500,000

	Capacity and Nature	Date of Options Granted[4]	Price per Share to be Paid on Exercise of Options (HKD)	No. of Options Outstanding as at 1 January 2007[1]	No. of Options Granted During the Period[1]	No. of Options Exercised During the Period[1]	No. of Options Forfeited During the Period[1]	No. of Options Outstanding as at 30 June 2007[1]
Directors (continued)								
Lu Jianguo	Beneficial owner (Personal)	22 June 2000	15.42	292,600	–	–	–	292,600
		10 July 2002	6.18	292,000	–	292,000	–	–
		20 July 2004	5.92	292,000	–	–	–	292,000
		15 February 2006	6.35	500,000	–	–	–	500,000
Wu Jinglian	Beneficial owner (Personal)	10 July 2002	6.18	292,000	–	–	–	292,000
		21 May 2003	4.30	292,000	–	–	–	292,000
		20 July 2004	5.92	292,000	–	–	–	292,000
Shan Weijian	Beneficial owner (Personal)	21 May 2003	4.30	292,000	–	–	–	292,000
		20 July 2004	5.92	292,000	–	–	–	292,000
Cheung Wing Lam, Linus	Beneficial owner (Personal)	20 July 2004	5.92	292,000	–	88,000	–	204,000
Wong Wai Ming	–	–	–	–	–	–	–	–
Employees		22 June 2000	15.42	23,388,400	–	–	–	23,388,400
		30 June 2001	15.42	5,708,000	–	–	–	5,708,000
		10 July 2002	6.18	9,898,400	–	4,429,200	175,200	5,294,000
		21 May 2003	4.30	24,771,600	–	9,106,800	362,000	15,302,800
		20 July 2004	5.92	77,564,000	–	11,692,000	358,000	65,514,000
		15 February 2006	6.35	160,716,000	–	–	934,000	159,782,000
Total				314,256,000				285,626,800

Notes:

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

2. Ms. Li Jianguo resigned as executive director on 9 July 2007.

3. Mr. Miao Jianhua was appointed as executive director on 12 July 2007.

4. Particulars of share options are as follows:

Date of Grant	Exercise Period
Options granted under the Pre-Global Offering Share Option Scheme:	
22 June 2000	22 June 2002 to 21 June 2010
Options granted under the Share Option Scheme:	
30 June 2001	30 June 2001 to 22 June 2010
10 July 2002	10 July 2003 to 9 July 2008 (in respect of 40% of the options granted) 10 July 2004 to 9 July 2008 (in respect of 30% of the options granted) 10 July 2005 to 9 July 2008 (in respect of the remaining 30% of the options granted)
21 May 2003	21 May 2004 to 20 May 2009 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2009 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2009 (in respect of the remaining 30% of the options granted)
20 July 2004	20 July 2005 to 19 July 2010 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2010 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2010 (in respect of the remaining 30% of the options granted)
21 December 2004	21 December 2005 to 20 December 2010 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2010 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2010 (in respect of the remaining 30% of the options granted)
15 February 2006	15 February 2008 to 14 February 2012 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2012 (in respect of the remaining 50% of the options granted)

Please also refer to Note 19 to the unaudited condensed consolidated interim financial information for additional description, financial impact and valuation of the respective share option schemes.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 30 June 2007, the interests and short positions of the directors of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

As at 30 June 2007, the following Directors of the Company held the following ordinary shares of HKD0.10 of the Company:

Director	Capacity	Ordinary shares held	Percentage of total issued shares
Li Zhengmao	Beneficial owner (personal)	20,000	0.0002%
Cheung Wing Lam, Linus	Beneficial owner (personal)	200,000	0.0016%

Please refer to the paragraph "Share Option Schemes of the Company - 4. Directors', Chief Executive's and Employees' Interest Under the Pre-Global Offering Share Option Scheme and Share Option Scheme" herein above for the interests held and rights to acquire shares by the directors and chief executive of the Company under the Pre-Global Offering Share Option Scheme and the Share Option Scheme as at 30 June 2007.

Apart from those disclosed herein, at no time during the six months ended 30 June 2007, was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Furthermore, apart from those disclosed herein, as at 30 June 2007, none of the directors or chief executive of the Company 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 as defined in the SFO.

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

The following table sets out the interests and short positions of every person, other than a director or chief executive of the Company, in the shares or underlying shares of the Company as having been notified to the Company and recorded in the register required to be kept under section 336 of the SFO as at 30 June 2007:

	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	—	76.53%
(ii) China United Telecommunications Corporation Limited ("A Share Company") [1]	—	9,725,000,020	—	76.53%
(iii) China Unicom (BVI) Limited ("China Unicom (BVI)") [1]	9,725,000,020	—	—	76.53%
(iv) SK Telecom Co., Ltd ("SK Telecom") [2]	—	—	899,745,075	7.08%

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 SFO, 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. SK Telecom has an interest in 899,745,075 shares in the Company by virtue of its ownership of the convertible bonds issued by the Company. Please refer to Note 13 to the unaudited condensed consolidated interim financial information for details of the convertible bonds.

Apart from the foregoing, as at 30 June 2007 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 SFO.

Please also refer to Note 11 to the unaudited condensed consolidated interim financial information for the shareholding position of the Company's shares as at 30 June 2007.

FULL CONVERSION OF USD1 BILLION CONVERTIBLE BONDS BY SK TELECOM

On 20 June 2006, the Company has entered into a subscription agreement (the "Subscription Agreement") with SK Telecom, whereby SK Telecom agreed to subscribe to 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 USD1 billion. The three-year Convertible Bonds bear zero interest, with a conversion price of HKD8.63 per share and a maturity date of 5 July 2009. Upon the fulfillment of the conditions set forth in the Subscription Agreement, the Convertible Bonds were issued on 5 July 2006.

The Company received a notice dated 20 August 2007 which was delivered by SK Telecom pursuant to the terms and conditions of the Convertible Bonds for the conversion in full of the Convertible Bonds into the Company's shares. Accordingly, the Company will allot and issue 899,745,075 ordinary shares of HKD0.10 each of the Company to SK Telecom, which represents approximately 6.61% of the Company's enlarged share capital as at 20 August 2007.

Upon the completion of the issuance of such 899,745,075 ordinary shares to SK Telecom, SK Telecom will, pursuant to the Strategic Alliance Framework Agreement between SK Telecom and the Company dated on June 20, 2006, be entitled to nominate a representative to the Board of the Company if SK Telecom and/or its affiliates hold more than 5% of the issued share capital of the Company.

INTERIM DIVIDEND

It was resolved by our Board of Directors that no interim dividend for the six months ended 30 June 2007 be declared.

CHARGE ON ASSETS

As at 30 June 2007, no property, plant and equipment was pledged to banks as loan security (30 June 2006: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares.

BOARD OF DIRECTORS

The directors during the period were:

Executive directors:

Chang Xiaobing (Chairman)

Shang Bing

Tong Jilu

Li Jianguo

Yang Xiaowei

Li Zhengmao

Li Gang

Zhang Junan

Non-executive director:

Lu Jianguo

Independent non-executive directors:

Wu Jinglian

Shan Weijian

Cheung Wing Lam, Linus

Wong Wai Ming

Ms. Li Jianguo resigned as executive director on 9 July 2007. Mr. Miao Jianhua was appointed as executive director on 12 July 2007.

AUDIT COMMITTEE

The audit committee, together with the management, has reviewed the accounting principles and practices adopted by the Company as well as the internal control of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2007.

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

REMUNERATION COMMITTEE

The major responsibilities of the remuneration committee include considering and approving (i) the remuneration policies proposed by the management, (ii) remuneration package of executive directors and (iii) the Company's share option scheme.

The remuneration committee comprises Mr. Wu Jinglian and Mr. Cheung Wing Lam, Linus, both of whom are independent non-executive directors of the Company, and Mr. Lu Jianguo, who is a non-executive director of the Company. The Chairman of the committee is Mr. Wu Jinglian.

CORPORATE GOVERNANCE

1. Compliance with Code of Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Code of Corporate Governance Practices (the "Code Provision") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2007 except the following:

(a) Under the Code Provision A.2.1, the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board of Directors understands that the principle of the Code Provision is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. Mr. Chang Xiaobing has been the Chairman and Chief Executive Officer of the Company since December 2004. Mr. Shang Bing is the Company's President since November 2004. 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 purpose of separating responsibilities. The above 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.

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

The Company has prepared the Procedures for Dealing of Securities by Directors in accordance with Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries and all directors confirmed that they had complied with the relevant code for securities transactions for the six months ended 30 June 2007.

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

It has been strongly emphasized by the Company on the compliance with the requirements under Section 404 of the SOX Act. The relevant section of the Act requires the management of the non-US issuers with equity securities listing in the US securities market to issue reports and representations as to the internal control over financial reporting. Section 404 of the SOX Act is effective from the first financial reporting year ended on 15 July 2006 or after for large non-US issuers like the Company.

Under Section 404 of the SOX Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting. The management had assessed the effectiveness of the Company's internal control over financial reporting as of 31 December 2006. Based on the assessment, the management has concluded that the Company's internal control over financial reporting as of 31 December 2006 was effective. In addition, as part of the 2006 integrated audit, the independent auditor of the Company is required to perform an audit of internal control over financial reporting for the year ended 31 December 2006. Based on their audit, the independent auditor of the Company expressed an unqualified opinion on the management's assessment and on the effectiveness of internal control over financial reporting of the Company as of December 31 2006. The management's assessment and the independent auditors' audit report are included in the Company's annual report on Form 20-F for the year ended 31 December 2006, as filed with the United States Securities Exchange Commission on 29 June 2007.

In order to enhance its corporate governance standards in accordance with the requirements under the SOX Act, many initiatives have been undertaken to strengthen the Company's internal control processes and procedures. The steering committee had formulated a working plan to improve the internal control system. Efforts made include implementing such plan to enhance the internal control procedures, organizing Company-wide staff training and formulating long-term plan on internal control. Through our continuing efforts, including enhancing the internal control procedures over the business processes, identifying key risk areas, improving the accountability system for risk management and establishing a detailed documentation system, the Company aims to establish and maintain a comprehensive internal control system to better manage the risks arising from the ordinary course of the business and the financial reporting system and thereby ensure the effectiveness of internal control over financial reporting.

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

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Hong Kong Companies Ordinance, as well as applicable US federal securities laws, including the US Securities Exchange Act of 1934, as amended, and the SOX Act. The Company is also subject to the listing standards of the New York Stock Exchange to the extent they apply to non-US issuers. However, as a non-US issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

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

5. Appendix 16 of the Listing Rules

According to paragraph 40 of Appendix 16 to the Listing Rules "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2006 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2007, the Group employed approximately 120 and 55,000 staff in Hong Kong and Mainland China, respectively. Also, the Group employed approximately 60,000 temporary staff in Mainland China. For the six months ended 30 June 2007, employee benefit expenses were approximately RMB3.50 billion (for the six months ended 30 June 2006: RMB3.32 billion). The Group endeavors to keep its employees' remuneration in line with market trend and being competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus system based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits, internal and external training programmes, varying based on their individual needs.

The Company has share option schemes, under which the Company may grant share options to eligible staff for subscribing to the Company's shares.

FORWARD-LOOKING STATEMENTS

The Company would like to caution investors and readers about the forward-looking nature of some of the statements contained in this interim report. Such forward-looking statements are, by their nature, subject to significant 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 the PRC, future growth of the market demand for telecommunication services, changes in the competitive environment, regulatory environment and the PRC government's regulatory and/or industry policy, the PRC government's decisions in relation to the technology standards and licenses of 3G mobile telecommunication and other factors that will affect the execution of our business plans and strategies as well as our business condition and financial results.

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 23 August 2007