CHINA UNICOM (HONG KONG) LIMITED

Incorporated in Hong Kong with limited liability

Stock Code: 0762

2009 Interim Report

www.chinaunicom.com.hk

China Unicom (Hong Kong) Limited
75th Floor, The Center, 99 Queen's Road Central, Hong Kong
Tel (852) 2126 2018   Fax (852) 2126 2016

Contents

Chairman's Statement

In the first half of 2009, the Chinese macroeconomy continued to encounter various challenges brought by the international financial crisis. With the restructuring of telecommunications industry and the issuance of the 3G license, industry competition environment has become increasingly complicated. In the first half of the year, the Company actively pushed forward its internal integration, leveraged on the advantage of full-service resources and stepped up efforts in business expansion. The Company has achieved new progress in various aspects.

Chang Xiaobing
Chairman & CEO

Financial performance

In the first half of the year, the Company recorded operating revenue of RMB76.32 billion. Service revenue amounted to RMB74.51 billion, representing a decline of 4.3% over the same period of last year and a decline of 3.3% over the same period of last year when compared on the same basis (Note 1). Service revenue of the GSM business reached RMB34.19 billion, representing an increase of 5.7% over the same period of last year. Service revenue of the fixed-line business reached RMB40.19 billion, representing a decline of 11.3% over the same period of last year and a decline of 9.7% over the same period of last year when compared on the same basis (Note 1). Of the revenue from the fixed-line business, revenue from the fixed-line broadband service was RMB11.73 billion, representing an increase of 10.3% over the same period of last year.

Due to the impact of corporate restructuring and intensified industry competition, the Company recorded profit of RMB6.62 billion, representing a decline of 42.1% when compared with profit from the continuing operations over the same period of last year and a decline of 33.2% when compared on the same basis (Note 2). Basic earnings per share was RMB0.28.

Business performance

In the first half of the year, the Company's mobile business grew steadily and the revenue proportion from its mobile value-added services continued to increase. 3G service was launched. The fixed-line business saw greater downward pressure while the fixed-line broadband business continued to grow.

As for the mobile business, the Company continued to improve network coverage and network quality. While the Company focused on the retention of existing users, it also actively expanded the market and strengthened the sales of value-added services with GPRS as the focus. The Company further made comprehensive use of the resource advantage of full-services to develop fixed-line and mobile bundled services, which increased revenue from the mobile business and improved its composition.

In the first half of the year, the net addition of GSM subscribers was 7.012 million, taking the total subscriber number to 140.377 million. ARPU was RMB41.7, representing a decline of 4.3% over the same period of last year and remained stable compared with the second half of last year. The Company's mobile value-added services accounted for 26.8% of the total revenue from mobile services, representing an increase of 2.5 percentage points over the same period of last year. Revenue from GPRS reached RMB1.32 billion.

As for the fixed-line business, facing increasing pressure from mobile voice substitution on traditional fixed-line business, the Company has persisted in the fixed-line development strategy using broadband internet as the core, enhanced network capacity, increased the access speed and made great efforts to develop integrated businesses and IT services. This increased revenue proportion of the non-voice business to the total service revenue from the fixed-line business. The structural adjustment and innovative transformation of the fixed-line business was gradually realized.

In the first half of the year, the net addition of fixed-line broadband subscribers was 4.832 million, taking the total subscriber number to 34.913 million. ARPU was RMB60.2, representing a decline of 13.5%; a total of 1.118 million local telephone subscribers were lost, taking the total subscriber number to 108.452 million. The revenue proportion of the fixed-line non-voice business to the total fixed-line service revenue (excluding upfront connection fees) reached 47.2%.

In the first half of the year, the Company actively pushed forward the optimization and integration of channel resources, strengthened electronic sales channel construction and reinforced the sales capability of its self-owned channels, as well as managed and fully utilized the sales capability of community channels. The transaction volume for electronic channels grew rapidly. The percentage of sales made through self-owned channels of mobile business increased by almost 5 percentage points over last year.

Progress in 3G services

Since obtaining the 3G (WCDMA) operating license on 7 January, the Company fully focused on developing 3G network construction and preparing for business operation, and has achieved extensive network coverage.

On 17 May, the Company officially initiated 3G pre-commercial friendly trial in 56 cities as scheduled and launched various 3G services, including mobile internet, mobile search, mobile music, mobile TV, video telephony, mobile newspaper and wireless internet access card. Currently, there were 268 cities for pre-commercial friendly trial undertaken by the Company. Due to bulk purchase and the synergistic effect on networks, the construction cost was reduced. With the same amount of capital expenditure on the 3G network construction as planned for the year, the number of cities covered by 3G network will be expanded from the original 284 cities planned earlier this year to 335 cities.

On 28 August, the Company and Apple reached a three year agreement for the Company to sell iPhone in China. The initial launch is expected to be in the fourth calendar quarter of 2009. This will provide users with brand new communication and information experience.

Branding building

After realizing full-service operation and securing the 3G operating license, the Company established a new brand system and officially launched the full-service brand "WO" on 28 April. "WO" carries the Company's brand-new service philosophy and reflects the Company's corporate image of "being innovative". With the continued improvement of the Company's network quality, the further upgrade of the service standard and the official launch of 3G services, "WO" will offer a brand new experience for users.

Progress on internal integration

In the first half of the year, the Company steadily pushed forward internal integration. This improved the operation mechanism and various management flow systems. The utilization efficiency of network resources further enhanced, which strengthened supporting capability on 3G services and basic integrated services, and achieved the full-service unification of customer service interfaces.

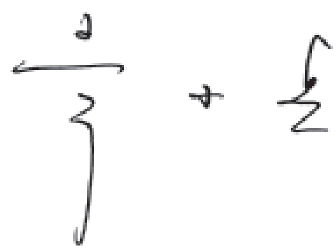
Due to the complexity of integration, more time is expected to fully realize the synergistic effect. The Company will further proceed with optimization in such aspects as sales and marketing, network operation, IT support, customer services and human resources management to inspire its vitality and momentum, as well as to reinforce its ability for sustainable development.

Outlook

With the evolution of network technology and the diversification of customer needs, the Chinese telecommunications industry is undergoing a historical change. This has injected new energy into the development of the telecommunications industry, creating new opportunities and challenges for conventional telecommunications operators.

In the second half of the year, the Company will implement various effective measures to maintain the steady growth of its mobile business and mitigate the decline of its traditional fixed-line business. The Company will endeavor to promote the rapid growth of its mobile value-added service, fixed-line broadband internet service and integrated services, increase revenue contribution from non-voice and new services. The Company also highly emphasizes on 3G business and will step up its efforts on network construction and optimization, continuous product innovation, and improvement on sales and marketing and handsets strategies. The Company will continue to push forward the 3G pre-commercial trial and aims for a successful launch of 3G business within the year. Meanwhile, the Company will further advance internal integration, strengthen operational management, effectively enhance execution, to continuously increase the overall strength and quality of development of the Company.

Lastly, I would like to take this opportunity to express on behalf of the Board of the Company our gratitude to shareholders, the government and the communities for their support to the Company, and would also like to express my heartfelt thanks to the management and all staff for their efforts made in the new phase for the Company´s development.



Chang Xiaobing
Chairman and Chief Executive Officer
Hong Kong, 28 August 2009

Note 1: In order to ensure the comparability of revenue amounts, the non-comparable factors below which are reflected in the figures of current period and the same period of last year are excluded for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.28 billion for the first half of 2009 and RMB0.51 billion for the first half of 2008 and,

(2) certain interconnection revenue of RMB0.61 billion between the fixed-line business and the discontinued operations of CDMA business for the first half of 2008.

Note 2: In order to ensure the comparability of the profit amounts, the non-comparable factors below which are reflected in the figures of current period and the same period of last year are excluded for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.28 billion for the first half of 2009 and RMB0.51 billion for the first half of 2008,

(2) the gain of RMB0.02 billion from the non-monetary assets exchange for the first half of 2009 and RMB0.61 billion for the first half of 2008 and,

(3) the lease fee of RMB0.91 billion for the telecommunications networks of 21 provinces in southern China for the first half of 2009.

Financial and Business Overview

In the first half of 2009, the Company proactively coped with the changes in macro-economic environment and fierce market competition after the industry reorganisation. The Company also actively developed internal integration, accelerated the development of 3G networks construction and continuously promoted the development of synergy. As a result, it has achieved stable development for its business.

I. Financial Overview

Revenue

In the first half of 2009, revenue reached RMB76.32 billion, out of which, telecommunications service revenue was RMB74.51 billion, down by 3.3% compared on the same basis (Note 1) with the same period of last year.

Telecommunications service revenue from mobile business was RMB34.19 billion, up by 5.7% from the same period of last year. Net addition of subscribers was 7.012 million for the first half of 2009 and the number of subscribers was 140.377 million as at the end of first half of 2009. Monthly average minutes of usage ("MOU") per subscriber was 248.9 minutes and monthly average revenue per user ("ARPU") was RMB41.7.

Telecommunications service revenue from the fixed-line business was RMB40.19 billion, down by 9.7% compared on the same basis (Note 1) with the same period of last year. Out of the service revenue from the fixed-line business, revenue from broadband service achieved RMB11.73 billion, up by 10.3% from the same period of last year. Net addition of broadband subscribers was 4.832 million for the first half of 2009 and the number of broadband subscribers was 34.913 million as at the end of first half of 2009. ARPU of broadband business was RMB60.2. Service revenue from the local telephone business (fixed-line telephone and Personal Handyphone System ("PHS")) was RMB20.93 billion, down by 17.1% compared on the same basis (Note 1) with the same period of last year. Net reduction of local telephone subscribers was 1.118 million for the first half of 2009 and the number of local telephone subscribers was 108.452 million as at the end of the first half of 2009. ARPU of local telephone business was RMB32.0.

Costs and Expenses

In the first half of 2009, total costs and expenses, including finance costs, interest income and other income-net, were RMB67.69 billion, up by 1.3% from the same period of last year. As affected by the impairment on the PHS business related assets in last year which resulted in a reduced level of depreciable assets, depreciation and amortisaton was RMB23.36 billion, down by 2.6% from the same period of last year. In line with the large-scale expansion of networks facilities and base stations, networks, operations and support expenses were RMB10.11 billion, up by 17.1% from the same period of last year. As affected by the intensive market competition, the launch of 3G and full service brands and other factors, selling and marketing expenses were RMB9.66 billion, up by 6.6% from the same period of last year.

Earnings

In the first half of 2009, profit before income tax was RMB8.63 billion, profit for the period was RMB6.62 billion, basic earnings per share was RMB0.278. Adjusted profit for the period from continuing operations (Note 2) would be down by 33.2% compared on the same basis with the same period of last year. Adjusted EBITDA (Note 3) would be RMB32.59 billion, down by 15.1% compared on the same basis with the same period of last year.

Capital Expenditures and Free Cash Flow

In the first half of 2009, capital expenditures totaled RMB37.25 billion, out of which, capital expenditures attributable to 3G was RMB19.93 billion. Free cash flow (representing net cash flows from operating activities minus capital expenditures) was RMB-5.83 billion.

Balance Sheet

Liabilities-to-assets ratio (Note 4) changed from 40.4% as at 31 December 2008 to 42.0% as at 30 June 2009. Debt-to-capitalisation ratio (Note 5) changed from 12.6% as at 31 December 2008 to 13.4% as at 30 June 2009.

II. Business Overview

In the first half of 2009, the Company aggressively pushed for its 3G network deployment and pre-commercial trial, accelerated the growth and improved the quality of its 2G subscribers, sped up the broadband upgrade with access speed increase, actively promoted internal integration and strengthened business development of its value-added services and has achieved stable growth for its mobile business. Although fixed-line broadband business continued to grow, the fixed-line business as a whole faced increasing pressure.

Mobile Business

GSM Voice Business

In the first half of 2009, while trying to retain existing GSM subscribers, the Company actively expanded into new incremental markets, as well as developed fixed-line and mobile bundling services. As a result, the Company had achieved steady growth for the GSM mobile business. The Company's total GSM subscribers reached 140.377 million, representing a net addition of 7.012 million subscribers. Total mobile voice usage was 204.83 billion minutes, representing a year-over-year growth of 10.2%. The average minutes of usage (MOU) per GSM subscriber per month was 248.9 minutes, down by 0.3% from the first half of last year. Average revenue per user per month (ARPU) was RMB41.7, representing a year-over-year decline of 4.3%, and remained stable from the second half of last year.

GSM Value-added Services Business

In the first half of 2009, the Company improved the penetration and the revenue proportion of its mature value-added services, such as SMS and "Cool Ringtone", and established new revenue growth areas with a focus on the GPRS services. As a result, the value-added services business sustained rapid growth. GSM SMS volume reached 38.39 billion messages, representing an increase of 0.9% over the same period of last year. The number of "Cool Ringtone" subscribers reached 49.35 million, representing a net increase of 5.219 million subscribers from the end of last year, while penetration rate increased from 33.1% in the first half of 2008 to 35.2%. For GPRS services, with a net addition of 8.762 million subscribers, the total subscriber number reached 39.985 million, while penetration rate increased from 17.3% in the first half of 2008 to 28.5%.

3G Mobile Business

On 17 May 2009, the Company successfully launched its 3G pre-commercial trial, and rolled out 3G services such as mobile internet, mobile search, mobile music, mobile TV, video telephony, mobile newspaper and wireless internet access card. As of 1 August 2009, friendly users from 268 cities in China were able to participate in the 3G pre-commercial trial. Presently, the Company has international roaming arrangements with 50 3G operators in 30 countries and regions.

Fixed-line Business

Traditional Fixed-line Business

Under the declining pressure of the traditional fixed-line business, the Company has been making every effort to slow down such decline by actively promoting the bundled business and service packages with fixed-line, broadband and mobile services and developing fixed-line value-added businesses. As of 30 June 2009, the total number of local access subscribers reached 108.452 million, representing a net decrease of 1.118 million from the end of last year; the Caller ID service penetration was 72.3%, representing a decrease of 0.2 percentage points from the same period last year; the number of subscribers using phone navigation services reached 0.696 million, representing an increase of 67.5% from the same period last year. In the first half of 2009, the total number of pulses of local access lines (excluding dial-up internet access) was 94.19 billion, representing a decrease of 9.6% from the same period last year; the average minutes of use per month per subscriber (MOU) was 144.0 minutes, representing a decrease of 1.9% from the same period last year; the average revenue per subscriber per month (ARPU) was RMB32.0, representing a decrease of 12.2% from the same period last year.

Fixed-line Broadband and Data Communications Business

The Company accelerated broadband speed upgrade and promoted contents and applications. As a result, the fixed-line broadband business continued to grow. As of 30 June 2009, the total number of broadband subscribers reached 34.913 million, representing a net increase of 4.832 million from the end of last year. Among those subscribers, the percentage of subscribers with access speed of 2M and above reached 69.4%. The number of subscribers who use contents and applications services reached 7.135 million, representing 20.4% of the total broadband subscribers. For the first half of 2009, ARPU was RMB60.2, representing a decrease of 13.5% from the same time last year.

Branding and Customer Services

On 28 April 2009, the Company launched a full service brand "WO". "WO" is being developed into an integrated brand system, covering four major categories of services for individual customers, family customers, corporate customers and customer services.

In the first half of 2009, the Company continued to consolidate its customer service resources, expand the support for electronic channels, and has achieved a unified customer service interface and full-service customer care via 10010 customer service hotline. The service support capabilities and transaction volume of the online electronic channel increased significantly. The "One Card Recharge" service was commercially launched at the beginning of the year to provide value-recharge service for subscribers at different locations, and has been upgraded to "Full-Service One Card Recharge" on 17 August 2009 to provide full-service value-recharge for customers nationwide.

Note 1: In order to ensure the comparability of revenue amounts, the non-comparable factors below which are reflected in the figures of current period and the same period of last year are excluded for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.28 billion for the first half of 2009 and RMB0.51 billion for the first half of 2008 and,

(2) certain interconnection revenue of RMB0.61 billion between the fixed-line business and the discontinued operations of CDMA business for the first half of 2008.

Note 2: In order to ensure the comparability of the profit amounts, the non-comparable factors below which are reflected in the figures of current period and the same period of last year are excluded for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.28 billion for the first half of 2009 and RMB0.51 billion for the first half of 2008,

(2) the gain of RMB0.02 billion from the non-monetary assets exchange for the first half of 2009 and RMB0.61 billion for the first half of 2008 and,

(3) the lease fee of RMB0.91 billion for the telecommunications networks of 21 provinces in southern China for the first half of 2009.

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

Although EBITDA has been widely applied in the global telecommunications industry as an indicator to reflect operating performance, financial capability and liquidity, it should be considered in addition to, and is not a substitute for or superior to, the measure of financial performance prepared under generally accepted accounting principles ("GAAP") as it does not have any standardised meaning under GAAP and is not regarded as a measure of operating performance and liquidity under GAAP. In addition, it may not be comparable to similar indicators provided by other companies.

In order to ensure the comparability of the EBITDA amounts, the non-comparable factors below which are reflected in the figures of current period and the same period of last year are excluded for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.28 billion for the first half of 2009 and RMB0.51 billion for the first half of 2008 and,

(2) the lease fee of RMB0.91 billion for the telecommunications networks of 21 provinces in southern China for the first half of 2009.

Note 4: Liabilities-to-assets ratio represents total liabilities over total assets.

Note 5: Debt-to-capitalisation ratio represents interest bearing debts plus minority interest over interest bearing debts plus total equity.

Unaudited Condensed Consolidated Interim Financial Information

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2009
(All amounts in Renminbi ("RMB") millions)

	Note	Unaudited 30 June 2009	Unaudited 31 December 2008 (As restated) (Note 2)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**300,054**	285,469
Lease prepayments		**7,660**	7,863
Goodwill		**2,771**	2,771
Deferred income tax assets	6	**5,859**	5,334
Available-for-sale financial assets		**181**	95
Other assets	7	**9,948**	9,087
		326,473	310,619
Current assets			
Inventories and consumables	8	**1,127**	1,092
Accounts receivable, net	9	**9,914**	9,341
Prepayments and other current assets	10	**2,622**	2,715
Amounts due from ultimate holding company	27.1(c)	**—**	169
Amounts due from related parties	27.1(c)	**93**	128
Amounts due from domestic carriers	27.2(b)	**1,341**	974
Proceeds receivable for the disposal of the CDMA business	27.2(c)	**5,437**	13,140
Short-term bank deposits		**196**	337
Cash and cash equivalents		**7,725**	10,237
		28,455	38,133
Total assets		**354,928**	348,752
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	11	**2,329**	2,329
Share premium	11	**166,784**	166,784
Reserves		**(18,999)**	(15,464)
Retained profits			
– Proposed 2008 final dividend	25	**—**	4,754
– Others		**55,619**	49,322
		205,733	207,725
Minority interest in equity		**2**	2
Total equity		**205,735**	207,727

(All amounts in RMB millions)

	Note	Unaudited 30 June 2009	31 December 2008 (As restated) (Note 2)
LIABILITIES			
Non-current liabilities			
Long-term bank loans	12	**939**	997
Corporate bonds	13	**7,000**	7,000
Deferred income tax liabilities	6	**18**	16
Deferred revenue		**3,043**	3,398
Other obligations		**1,314**	1,681
		12,314	13,092
Current liabilities			
Payables and accrued liabilities	14	**76,869**	67,509
Taxes payable		**11,285**	11,307
Amounts due to ultimate holding company	27.1(c)	**2**	—
Amounts due to related parties	27.1(c)	**3,215**	1,658
Amounts due to domestic carriers	27.2(b)	**1,230**	956
Payables in relation to the disposal of the CDMA business	27.2(c)	**182**	4,232
Dividend payable	25	**1,027**	149
Short-term commercial paper	15	**10,000**	10,000
Short-term bank loans	16	**11,780**	10,780
Current portion of long-term bank loans	12	**603**	1,216
Current portion of deferred revenue		**1,629**	2,200
Current portion of other obligations		**3,017**	3,012
Advances from customers		**16,040**	14,914
		136,879	127,933
Total liabilities		**149,193**	141,025
Total equity and liabilities		**354,928**	348,752
Net current liabilities		**(108,424)**	(89,800)
Total assets less current liabilities		**218,049**	220,819

The notes on pages 19 to 65 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Income

For the six months ended 30 June 2009
(All amounts in RMB millions, except per share data)

		Unaudited	
		Six months ended 30 June	
	Note	**2009**	2008 (As restated) (Note 2)
Continuing operations			
Revenue	17	**76,319**	81,459
Interconnection charges		**(6,240)**	(6,393)
Depreciation and amortisation		**(23,358)**	(23,989)
Networks, operations and support expenses	18	**(10,106)**	(8,633)
Employee benefit expenses	19	**(10,546)**	(9,928)
Other operating expenses	20	**(16,551)**	(17,611)
Finance costs	21	**(363)**	(1,192)
Interest income		**51**	116
Other income – net	22	**331**	809
		9,537	14,638
Leasing fee for telecommunications networks in Southern China	1(b), 2	**(907)**	—
Profit from continuing operations before income tax		**8,630**	14,638
Income tax expenses	6	**(2,014)**	(3,202)
Profit from continuing operations		**6,616**	11,436
Discontinued operations			
Profit from discontinued operations	24	**—**	655
Profit for the period		**6,616**	12,091
Attributable to:			
Equity holders of the Company		**6,616**	12,090
Minority interest		**—**	1
		6,616	12,091

(All amounts in RMB millions, except per share data)

		Unaudited	
		Six months ended 30 June	
	Note	**2009**	2008 (As restated) (Note 2)
Earnings per share for profit attributable to equity holders of the Company during the period			
Basic earnings per share (RMB)	26	**0.28**	0.51
Diluted earnings per share (RMB)	26	**0.28**	0.51
Earnings per share for profit from continuing operations attributable to equity holders of the Company during the period			
Basic earnings per share (RMB)	26	**0.28**	0.48
Diluted earnings per share (RMB)	26	**0.28**	0.48
Earnings per share for profit from discontinued operations attributable to equity holders of the Company during the period			
Basic earnings per share (RMB)	26	**–**	0.03
Diluted earnings per share (RMB)	26	**–**	0.03

The notes on pages 19 to 65 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2009
(All amounts in RMB millions)

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated) (Note 2)
Profit for the period	**6,616**	12,091
Other comprehensive income		
Currency translation differences	**6**	(19)
Fair value gains/(losses) on available-for-sale financial assets, net of tax	**79**	(100)
Other comprehensive income for the period, net of tax	**85**	(119)
Total comprehensive income for the period	**6,701**	11,972
Total comprehensive income attributable to:		
Equity holders of the Company	**6,701**	11,971
Minority interest	**—**	1
	6,701	11,972

The notes on pages 19 to 65 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 2009
(All amounts in RMB millions)

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital	Share premium	Employee share-based compensation reserve	Revaluation reserve	Statutory reserves	Other reserve	Retained profits	Total	Minority interest	Total equity
Balance at 1 January 2008 (As previously reported)	1,437	64,320	516	1,113	17,933	56,713	36,480	178,512	4	178,516
Adjusted for 2009 Business Combination under common control (Note 1)	–	–	–	21	832	5,142	(6,336)	(341)	3	(338)
Balance at 1 January 2008 (As restated)	1,437	64,320	516	1,134	18,765	61,855	30,144	178,171	7	178,178
Total comprehensive income for the period	–	–	–	–	–	894	11,077	11,971	1	11,972
Transfer to retained profits in respect of depreciation on revalued assets	–	–	–	(1,056)	–	(34)	1,090	–	–	–
Transfer to statutory reserves	–	–	–	–	505	–	(505)	–	–	–
Equity-settled share option schemes:										
– Value of employee services	–	–	50	–	–	–	–	50	–	50
– Issuance of shares upon exercise of options (Note 23)	3	233	(70)	–	–	267	–	433	–	433
Dividends relating to 2007 (Note 25)	–	–	–	–	–	–	(6,231)	(6,231)	–	(6,231)
Balance at 30 June 2008 (As restated)	1,440	64,553	496	78	19,270	62,982	35,575	184,394	8	184,402
Balance at 1 January 2009 (As previously reported)	**2,329**	**166,784**	**540**	**136**	**22,361**	**(46,220)**	**60,780**	**206,710**	**–**	**206,710**
Adjusted for 2009 Business Combination under common control (Note 1)	**–**	**–**	**–**	**25**	**631**	**7,063**	**(6,704)**	**1,015**	**2**	**1,017**
Balance at 1 January 2009 (As restated)	**2,329**	**166,784**	**540**	**161**	**22,992**	**(39,157)**	**54,076**	**207,725**	**2**	**207,727**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**85**	**6,616**	**6,701**	**–**	**6,701**
Transfer of profit of entities under common control to ultimate holding company in relation to 2009 Business Combination	**–**	**–**	**–**	**–**	**–**	**–**	**(64)**	**(64)**	**–**	**(64)**
Consideration for 2009 Business Combination under common control (Note 1)	**–**	**–**	**–**	**–**	**–**	**(3,896)**	**–**	**(3,896)**	**–**	**(3,896)**
Transfer to retained profits in respect of depreciation on revalued assets	**–**	**–**	**–**	**(28)**	**–**	**–**	**28**	**–**	**–**	**–**
Transfer to statutory reserves	**–**	**–**	**–**	**–**	**283**	**–**	**(283)**	**–**	**–**	**–**
Equity-settled share option schemes:										
– Value of employee services	**–**	**–**	**21**	**–**	**–**	**–**	**–**	**21**	**–**	**21**
Dividends relating to 2008 (Note 25)	**–**	**–**	**–**	**–**	**–**	**–**	**(4,754)**	**(4,754)**	**–**	**(4,754)**
Balance at 30 June 2009	**2,329**	**166,784**	**561**	**133**	**23,275**	**(42,968)**	**55,619**	**205,733**	**2**	**205,735**

The notes on pages 19 to 65 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2009
(All amounts in RMB millions)

		Unaudited	
		Six months ended 30 June	
	Note	2009	2008 (As restated) (Note 2)
Cash flows from operating activities			
Continuing operations		**31,417**	31,070
Discontinued operations	24	**—**	1,149
Net cash inflow from operating activities		**31,417**	32,219
Cash flows from investing activities			
Continuing operations		**(35,766)**	(18,864)
Discontinued operations	24	**4,239**	(23)
Net cash outflow from investing activities		**(31,527)**	(18,887)
Cash flows from financing activities			
Continuing operations		**(2,402)**	(11,322)
Discontinued operations	24	**—**	—
Net cash outflow from financing activities		**(2,402)**	(11,322)
(Decrease)/increase in cash and cash equivalents		**(2,512)**	2,010
Cash and cash equivalents at beginning of period		**10,237**	12,663
Less: Cash and cash equivalents included in the disposal group in relation to the disposal of CDMA business		**—**	(2,567)
Cash and cash equivalents at end of period		**7,725**	12,106
Analysis of the balances of cash and cash equivalents:			
Cash balance		**9**	8
Bank balances		**7,716**	12,098
		7,725	12,106

The notes on pages 19 to 65 are an integral part of this unaudited condensed consolidated interim financial information.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. Upon the disposal of the CDMA cellular business to China Telecom Corporation Limited ("China Telecom") and the merger with China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") on 1 October 2008 and 15 October 2008, respectively, the principal activities of the Company are investment holding and the Company's subsidiaries are principally engaged in the provision of the GSM cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services (the GSM cellular voice and related value-added services referred to as the "Mobile business", the services aforementioned other than the Mobile business hereinafter collectively referred to as the "Fixed-line business") in the PRC. The Company and its subsidiaries are hereinafter referred to as the "Group".

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

On 15 November 2008, the Company was notified by its substantial shareholders, namely China Unicom (BVI) Limited ("Unicom BVI") and China Netcom Group Corporation (BVI) Limited ("Netcom BVI"), that their respective parent companies, namely, China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, the parent company of Unicom BVI, hereinafter referred to as "Unicom Group") and China Network Communications Group Corporation (a state-owned enterprise established in the PRC, the parent company of Netcom BVI, hereinafter referred to as "Netcom Group"), have agreed to undertake a merger (the "Parent Merger"). On 6 January 2009, the Company was notified by its substantial shareholders that the Parent Merger, through the absorption of Netcom Group by Unicom Group, had been approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and had become effective. As a result of the Parent Merger, Unicom Group has assumed all the rights and obligations of Netcom Group, all the assets, liabilities and business of Netcom Group including the connected transaction agreements with the Group vested in Unicom Group. Netcom Group will be deregistered accordingly and Unicom Group remains the ultimate holding company of the Company. As at the date of approval of this unaudited condensed consolidated interim financial information, Netcom Group is still in the progress of deregistration.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(a) Acquisitions of certain assets and businesses from Unicom Group and Netcom Group in 2009

On 16 December 2008, China United Network Communications Corporation Limited ("CUCL", a wholly-owned subsidiary of the Company) agreed to acquire from Unicom Group and Netcom Group (i) the fixed-line business, but not the underlying telecommunications networks across the 21 provinces in Southern China and related non-current assets and liabilities (hereinafter referred to as the "Fixed-line Business in Southern China") and the local access telephone business and related assets in Tianjin Municipality operated by Netcom Group and Unicom Group and/or their respective subsidiaries and branches; (ii) the backbone transmission assets in Northern China owned by Netcom Group and/or its subsidiaries ("Target Assets"); (iii) a 100% equity interest in Unicom Xingye Science and Technology Trade Company Limited ("Unicom Xingye") owned by Unicom Group; (iv) a 100% equity interest in China Information Technology Designing & Consulting Institute ("CITDCI") owned by Unicom Group and (v) a 100% equity interest in Unicom New Guoxin Telecommunications Corporation Limited ("New Guoxin") owned by Unicom Group at a consideration of approximately RMB6.43 billion, subject to certain adjustments. The businesses and assets described in (i), (iii), (iv) and (v) above are hereinafter collectively referred to as the "Target Business" and the acquisition of the Target Business is referred to as the "2009 Business Combination".

The aforementioned acquisitions of assets and businesses were approved by the independent shareholders of the Company in an extraordinary general meeting held on 14 January 2009. As all of the conditions to the acquisitions were satisfied (or if applicable, waived), the 2009 Business Combination and the acquisition of the Target Assets were completed on 31 January 2009. The total consideration of the aforementioned acquisitions of assets and businesses was adjusted downwards by approximately RMB2 billion, which was settled after the final calculation of the values of certain current assets and current liabilities transferred from Unicom Group.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(b) Lease of telecommunications networks in Southern China from Unicom New Horizon Mobile Telecommunications Company Limited in 2009

In connection with the 2009 Business Combination, on 16 December 2008, CUCL, Unicom Group, Netcom Group and Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon", a wholly-owned subsidiary of Unicom Group) entered into an agreement (the "Network Lease Agreement") in relation to the lease (the "Lease") of the telecommunications networks of the 21 provinces in Southern China ("Telecommunications Networks in Southern China") by CUCL from Unicom New Horizon on an exclusive basis immediately following and subject to the completion of the 2009 Business Combination. Under the Network Lease Agreement, CUCL shall pay annual leasing fees of RMB2.0 billion and RMB2.2 billion for the two financial years ending 31 December 2009 and 31 December 2010, respectively. The initial term of the Lease is two years effective from January 2009 and the Lease is renewable at the option of CUCL with at least two months' prior notice on the same terms and conditions, except for the future lease fee which will remain subject to further negotiations between the parties, taking into account, among others, the then prevailing market conditions in Southern China. Moreover, in connection with the Lease, Unicom New Horizon has granted to CUCL an option to purchase the Telecommunications Networks in Southern China and the purchase price will be referenced to the then appraised value of the networks determined by an independent appraiser. Pursuant to the Network Lease Agreement, Unicom New Horizon has the legal ownership of the Telecommunications Networks in Southern China. The Group believes it only bears the risks associated with the operation of the Fixed-line Business in Southern China during the relevant leasing periods and is free from any ownership risks of the Telecommunications Networks in Southern China and the risks and rewards of ownership of the leased assets rest substantially with the lessor. Accordingly, the Group has accounted for the leasing of the aforementioned Telecommunications Networks in Southern China as an operating lease.

(c) Merger between CUCL and China Netcom (Group) Company Limited in 2009

On 15 October 2008, as part of the Company's integration with China Netcom, the Company entered into an agreement with three of its wholly-owned subsidiaries, namely (i) China Netcom; (ii) CUCL and (iii) China Netcom (Group) Company Limited ("CNC China", a wholly-owned foreign enterprise established in the PRC and a wholly-owned subsidiary of China Netcom), pursuant to which CUCL would merge with, and absorb, CNC China. The merged company would retain the name of China United Network Communications Corporation Limited and would remain a wholly-owned subsidiary of the Company. The merger between CUCL and CNC China became effective on 1 January 2009.

The merger between CUCL and CNC China does not have any impact on this unaudited condensed consolidated interim financial information.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(d) 2008 disposal and business combination activities

- **Disposal of the Group's CDMA business to China Telecom in 2008**

  On 2 June 2008, the Company, CUCL and China Telecom entered into the CDMA business framework agreement ("the Framework Agreement") to dispose of the assets and liabilities in relation to the CDMA business to China Telecom. On 27 July 2008, the Company, CUCL and China Telecom further entered into a CDMA business disposal agreement ("the Disposal Agreement"). The disposal was completed on 1 October 2008.

- **Merger between the Company and China Netcom by way of a scheme of arrangement of China Netcom in 2008 (hereinafter referred to as the "2008 Business Combination")**

  On 2 June 2008, the Company and China Netcom jointly announced that the Company had formally presented a share proposal, an ADS proposal, and an option proposal to the board of directors of China Netcom, and requested China Netcom's board of directors to put forward the proposals to the shareholders of China Netcom to consider a merger of the Company and China Netcom ("Proposed Merger") by way of a scheme of arrangement of China Netcom (the "Scheme") under Section 166 of the Hong Kong Companies Ordinance.

  An extraordinary general meeting of the shareholders of the Company at which the resolution of the Proposed Merger was passed was held on 16 September 2008 and the Scheme was sanctioned by Hong Kong High Court on 14 October 2008. The consideration for the 2008 Business Combination was approximately HKD117.2 billion which was satisfied by the issuance of 10,102,389,377 ordinary shares of HKD0.10 each of the Company to the shareholders of China Netcom. As all of the conditions of the proposals and the Scheme as specified in the Scheme document had been satisfied, the Scheme became effective on 15 October 2008.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim financial reporting" issued by the International Accounting Standards Board ("IASB"). IAS 34 is consistent with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 and 2008 has not been audited by the auditors, and the comparative unaudited restated financial information is extracted from the Group's internal records and management accounts. The 2008 comparative financial information comprising the unaudited condensed consolidated interim income statement for the six months ended 30 June 2008 and the unaudited condensed consolidated balance sheet as at 31 December 2008 have been restated as a result of a number of business combinations between entities under common control which were accounted for using merger accounting/predecessor values method as well as the adoption of a number of new/revised standards, amendments to standards and interpretations throughout 2008 and for the six months ended 30 June 2009. The details of such restatements are summarised in a later section of this note. Except for (i) those new/revised standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning 1 January 2009 which are detailed in Note 3, "Significant accounting policies", to the unaudited condensed consolidated interim financial information; (ii) the accounting for the lease of Telecommunications Networks in Southern China as explained in Note 1; and (iii) the exclusion of depreciation and amortisation charges and finance costs directly attributable to the property, plant and equipment and related non-current assets and liabilities retained by Unicom New Horizon in the 2008 comparative financial information which has been restated by applying merger accounting/predecessor values method as explained in a later section of this note headed "Business Combination of Entities and Business under Common Control and Purchase of Target Assets", the basis of preparation and the significant accounting policies adopted and estimates made 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 2008.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008. 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, as well as capital risk management, were set out in the Group's financial statements included in its 2008 Annual Report.

Business Combination of Entities and Business under Common Control and Purchase of Target Assets

The 2008 Business Combination was a business combination of entities under common control and the details of this business combination and corresponding accounting treatment were set out in the Group's financial statements included in its 2008 Annual Report.

The 2009 Business Combination was also considered a business combination of entities and businesses under common control as the Target Business before and after the acquisition was under the control of Unicom Group, the Group's ultimate holding company.

2. BASIS OF PREPARATION (Continued)

Business Combination of Entities and Business under Common Control and Purchase of Target Assets (Continued)

Under Hong Kong Financial Reporting Standards ("HKFRS"), the 2008 Business Combination and 2009 Business Combination were accounted for using merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" ("AG 5") issued by the HKICPA. Upon the adoption of International Financial Reporting Standards ("IFRS") by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Accordingly, the acquired assets and liabilities were stated at predecessor values, and were included in the financial information from the beginning of the earliest period as if the entities and businesses acquired had always been part of the Group.

Pursuant to the agreement dated 16 December 2008, the 2009 Business Combination excluded the Telecommunications Networks in Southern China, which were retained by Unicom New Horizon and were leased from Unicom New Horizon to CUCL effective from January 2009. To better reflect the economic substance that the Group has not taken on the risks and rewards associated with the property, plant and equipment and related non-current assets and liabilities relating to the Fixed-line Business in Southern China, the unaudited restated condensed consolidated balance sheet as at 31 December 2008 therefore includes only the relevant current assets of approximately RMB999 million and current liabilities of approximately RMB2,841 million of the Fixed-line Business in Southern China in accordance with the principle of the merger accounting/ predecessor values method but excludes the underlying property, plant and equipment and related non-current assets with net book value of approximately RMB31,350 million, the related long-term intercompany loans from Unicom Group for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB35,652 million and the related payables to network contractors and equipment suppliers of approximately RMB6,176 million. Further, the unaudited restated condensed consolidated interim income statement for the six months ended 30 June 2008 includes all the revenues and operating costs of the Fixed-line Business in Southern China, but excludes the depreciation and amortisation charges of approximately RMB1,642 million and the finance costs associated with the long-term intercompany loans for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB382 million, respectively.

The 2009 Business Combination was completed on 31 January 2009 and therefore the unaudited condensed consolidated interim income statement for the six months ended 30 June 2009 has excluded the depreciation and amortisation charges of approximately RMB308 million of the property, plant and equipment relating to Fixed-line Business in Southern China and related non-current assets and the finance costs associated with the long-term intercompany loans for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB26 million that were excluded from the transaction. After the completion of the 2009 Business Combination, the Group recorded leasing fees amounting to approximately RMB907 million charged by Unicom New Horizon for the lease of the Telecommunications Networks in Southern China for the six months ended 30 June 2009 (for the six months ended 30 June 2008: Nil).

Under IFRS/HKFRS, the purchase of the Target Assets in 2009 was accounted for as an asset purchase in accordance with IAS/HKAS 16 "Property, plant and equipment".

(All amounts in RMB millions unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

Change of Accounting Policies

In 2008, the Group changed its accounting policy on measurement of property, plant and equipment. In addition, the Group early adopted IFRIC/HK(IFRIC)-Int 13 "Customer loyalty programs" in 2008. Accordingly, the unaudited condensed consolidated interim income statement for the six months ended 30 June 2008 has been restated to reflect such changes of accounting policies. The details of the change of accounting policies were set out in the Group's financial statements included in its 2008 Annual Report.

Summary of the restatement to 2008 comparative financial information

The impact of the restatement of 2008 comparative financial information in connection with the 2008 Business Combination and 2009 Business Combination as well as the change of accounting policies are summarised as follows:

	As previously reported	Change of accounting policies	2008 and 2009 Business Combination	Eliminations	As restated
For the six months ended 30 June 2008					
Results of continuing operations:					
Revenue	35,135	111	48,552	(2,339)	81,459
Profit for the period	3,765	67	7,621	(17)	11,436

	As previously reported	2009 Business Combination	Eliminations	As restated
As at 31 December 2008				
Financial position:				
Non-current assets	308,804	1,959	(144)	310,619
Current assets	36,120	3,450	(1,437)	38,133
Total assets	344,924	5,409	(1,581)	348,752
Non-current liabilities	12,995	97	—	13,092
Current liabilities	125,219	4,062	(1,348)	127,933
Total liabilities	138,214	4,159	(1,348)	141,025
Net assets	206,710	1,250	(233)	207,727

2. BASIS OF PREPARATION (Continued)

Discontinued Operations

On 2 June 2008, the Company, CUCL and China Telecom entered into the Framework Agreement to dispose of the assets and liabilities in relation to the CDMA business and the disposal was completed on 1 October 2008. In accordance with IFRS/HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the IASB/HKICPA ("IFRS/HKFRS 5"), the results and cash flows of the operations of the CDMA operating segment of the Group were presented as discontinued operations in the unaudited condensed consolidated interim income statement and cash flow statement of the Group for the six months ended 30 June 2008 included in the Group's 2008 Interim Report.

Going Concern Assumption

As at 30 June 2009, current liabilities of the Group exceeded current assets by approximately RMB108.4 billion (31 December 2008: approximately RMB89.8 billion). Given the current global economic conditions and the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Unutilised banking facilities of approximately RMB88.8 billion; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group will continue to optimise its fund raising strategy from the short, medium and long-term perspectives and will consider the opportunities in the current capital market to take advantage of low interest rates by issuing medium to long-term debts with low financing cost.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2009 have been prepared under the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, 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 2008.

The following new/ revised standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009:

IFRS/HKFRS 2 (Amendment), "Share-based payment"
IFRS/HKFRS 8, "Operating segments"
IAS/HKAS 1 (Revised), "Presentation of financial statements"
IAS/HKAS 23 (Revised), "Borrowing costs"
Amendment to IFRS/HKFRS 7, "Financial instruments: disclosures"
IAS/HKAS 32 (Amendment), "Financial instruments: presentation"
IAS/HKAS 39 (Amendment), "Financial instruments: recognition and measurement"
IFRIC/HK(IFRIC) 9 (Amendment), "Reassessment of embedded derivatives"
IFRIC/HK(IFRIC) 15, "Agreements for the construction of real estate"
IFRIC/HK(IFRIC) 16, "Hedges of net investment in a foreign operation"

Except for certain presentational changes as described below, the adoption of the above new/ revised standards, amendments to standards and interpretations does not have any significant impact on the Group's unaudited condensed consolidated interim financial information:

- IAS/HKAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income).

  The Group has elected to present two statements: a consolidated income statement and a consolidated statement of comprehensive income. The unaudited condensed consolidated interim financial information has been restated and prepared under the revised disclosure requirement.

- IFRS/HKFRS 8, "Operating segments". The standard replaces IAS/HKAS 14, "Segment reporting". The new standard requires a "Management approach", under which segment information is presented on the same basis as that used for internal reporting purpose.

  The adoption of IFRS/HKFRS 8 and the completion of 2009 Business Combination have not resulted in changes in the number of reportable segments presented and operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM has been identified as the Board of Directors. Starting from 2009, the CODM evaluates results of each operating segment based on revenue and costs that are directly attributable to the operating segment, and other income statement items such as employee benefit expenses, interest income, income tax expenses, finance costs and other income, which cannot be allocated to specific operating segments, are presented as unallocated amounts. The 2008 comparative financial information has been restated to conform to current period's presentation. Please refer to Note 4 for details.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendment to IFRS/HKFRS 7, "Financial instruments: disclosures". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its consolidated financial statements for the year ending 31 December 2009.

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are not effective for the financial year beginning 1 January 2009 and have not been early adopted by the Group. Management is assessing the impact of such new standards and will adopt the relevant standards, amendments to standards and interpretations in the subsequent financial periods as required.

4. SEGMENT INFORMATION

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

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

Continuing operations:

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

Discontinued operations:

- CDMA business — the provision of the CDMA cellular and related services, through a leasing arrangement for the CDMA network capacity from Unicom New Horizon.

4. SEGMENT INFORMATION (Continued)

Starting from 2009, the CODM evaluates results of each operating segment based on revenue and costs that are directly attributable to the operating segment. The unallocated amounts primarily represent corporate and shared service expenses, including those relating to the businesses of the newly acquired equity interests in CITDCI and New Guoxin in 2009 that are not directly allocated to one of the aforementioned operating segments. The unallocated amounts also included other income statement items such as employee benefit expenses, interest income, income tax expenses, finance costs and other income, which cannot be allocated to specific operating segments. Segment assets primarily comprise property, plant and equipment, other assets, inventories and receivables. Segment liabilities primarily comprise operating liabilities. The 2008 comparative financial information has been restated to conform to current period's presentation.

Revenues between segments are carried out on terms equivalent to those that prevail in arm's length transactions. Revenue from external customers reported to the CODM is measured in a manner consistent with that in the unaudited condensed consolidated interim income statement.

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments

	Unaudited					
	Six months ended 30 June 2009					
	Continuing operations					
				Reconciling Items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total continuing operations
Telecommunications service revenue	34,194	40,192	74,386	127	–	74,513
Information communication technology services and other revenue	141	776	917	229	–	1,146
Sales of telecommunications products	544	116	660	–	–	660
Total revenue from external customers	34,879	41,084	75,963	356	–	76,319
Intersegment revenue	106	2,108	2,214	663	(2,877)	–
Total revenue	34,985	43,192	78,177	1,019	(2,877)	76,319
Interconnection charges	(6,335)	(2,110)	(8,445)	–	2,205	(6,240)
Depreciation and amortisation	(8,722)	(13,977)	(22,699)	(673)	14	(23,358)
Networks, operations and support expenses	(1,189)	(2,589)	(3,778)	(6,336)	8	(10,106)
Employee benefit expenses	–	–	–	(10,649)	103	(10,546)
Other operating expenses	(5,139)	(4,499)	(9,638)	(7,418)	505	(16,551)
Finance costs	–	–	–	(557)	194	(363)
Interest income	–	–	–	245	(194)	51
Other income – net	–	–	–	331	–	331
	13,600	20,017	33,617	(24,038)	(42)	9,537
Leasing fee for telecommunications networks in Southern China	–	(907)	(907)	–	–	(907)
Segment profit/(loss) before income tax	13,600	19,110	32,710	(24,038)	(42)	8,630
Income tax expenses						(2,014)
Profit for the period						6,616
Attributable to:						
Equity holders of the Company						6,616
Minority interest						–
						6,616
Other information:						
Provision for doubtful debts	684	598	1,282	–	–	1,282

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments (Continued)

	Unaudited							
	Six months ended 30 June 2008 (As restated)							
	Continuing operations						Discontinued operations	
				Reconciling Items				
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total continuing operations	CDMA business	Total
Telecommunications service revenue	32,350	45,330	77,680	170	–	77,850	12,926	90,776
Information communication technology services and other revenue	134	2,467	2,601	297	–	2,898	66	2,964
Sales of telecommunications products	15	696	711	–	–	711	2,423	3,134
Total revenue from external customers	32,499	48,493	80,992	467	–	81,459	15,415	96,874
Intersegment revenue	129	1,700	1,829	520	(2,349)	–	–	–
Total revenue	32,628	50,193	82,821	987	(2,349)	81,459	15,415	96,874
Interconnection charges	(5,365)	(2,833)	(8,198)	–	1,805	(6,393)	(1,119)	(7,512)
Depreciation and amortisation	(9,356)	(13,802)	(23,158)	(831)	–	(23,989)	(289)	(24,278)
Networks, operations and support expenses	(1,191)	(2,460)	(3,651)	(5,003)	21	(8,633)	(5,057)	(13,690)
Employee benefit expenses	–	–	–	(9,984)	56	(9,928)	(1,131)	(11,059)
Other operating expenses	(4,351)	(6,802)	(11,153)	(6,918)	460	(17,611)	(6,950)	(24,561)
Finance costs	–	–	–	(1,476)	284	(1,192)	(3)	(1,195)
Interest income	–	–	–	400	(284)	116	7	123
Other income – net	–	–	–	809	–	809	9	818
Segment profit/(loss) before income tax	12,365	24,296	36,661	(22,016)	(7)	14,638	882	15,520
Income tax expenses						(3,202)	(227)	(3,429)
Profit for the period						11,436	655	12,091
Attributable to:								
Equity holders of the Company						11,436	654	12,090
Minority interest						–	1	1
						11,436	655	12,091
Other information:								
Provision for doubtful debts	686	712	1,398	–	–	1,398	214	1,612

(All amounts in RMB millions unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

4.1 Operating Segments (Continued)

	Unaudited 30 June 2009					
				Reconciling Items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total
Total segment assets	**148,965**	**181,871**	**330,836**	**68,089**	**(43,997)**	**354,928**
Total segment liabilities	**60,263**	**36,228**	**96,491**	**96,515**	**(43,813)**	**149,193**

	Unaudited 31 December 2008 (As restated)					
				Reconciling Items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total
Total segment assets	130,041	184,127	314,168	77,799	(43,215)	348,752
Total segment liabilities	53,496	34,484	87,980	96,118	(43,073)	141,025

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the six months ended 30 June 2009 and 2008 are as follows:

	Unaudited						
	Six months ended 30 June 2009						
	Buildings	Tele-communications equipment of Mobile business	Tele-communications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress ("CIP")	Total
Cost or valuation:							
Beginning of period (As previously reported)	44,950	163,279	345,143	36,086	1,627	40,783	631,868
2009 Business Combination under common control (Note 1)	738	–	–	2,108	31	88	2,965
Beginning of period (As restated)	45,688	163,279	345,143	38,194	1,658	40,871	634,833
Additions	272	65	695	20	142	36,055	37,249
Transfer from CIP	1,306	10,165	7,118	961	47	(19,597)	–
Disposals	(122)	(172)	(267)	(127)	(91)	–	(779)
End of period	47,144	173,337	352,689	39,048	1,756	57,329	671,303
Representing:							
At cost	47,144	173,337	–	–	–	57,329	277,810
At valuation	–	–	352,689	39,048	1,756	–	393,493
	47,144	173,337	352,689	39,048	1,756	57,329	671,303
Accumulated depreciation and impairment:							
Beginning of period (As previously reported)	(13,019)	(95,942)	(217,482)	(20,668)	(813)	(32)	(347,956)
2009 Business Combination under common control (Note 1)	(66)	–	–	(1,322)	(9)	(11)	(1,408)
Beginning of period (As restated)	(13,085)	(95,942)	(217,482)	(21,990)	(822)	(43)	(349,364)
Charge for the period	(957)	(6,001)	(13,920)	(1,530)	(213)	–	(22,621)
Disposals	118	149	259	120	84	–	730
Impairment transfer out	–	–	–	–	–	6	6
End of period	(13,924)	(101,794)	(231,143)	(23,400)	(951)	(37)	(371,249)
Net book value:							
End of period	33,220	71,543	121,546	15,648	805	57,292	300,054
Beginning of period (As restated)	32,603	67,337	127,661	16,204	836	40,828	285,469

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Unaudited						
	Six months ended 30 June 2008 (As restated)						
	Buildings	Tele-communications equipment of Mobile business	Tele-communications equipment of Fixed-line business	Office furniture, fixtures, moto rvehicles and others	Leasehold improvements	Construction-in-progress ("CIP")	Total
Cost or valuation:							
Beginning of period (As previously reported)	44,094	151,660	327,711	32,418	1,657	18,966	576,506
2009 Business Combination under common control (Note 1)	394	–	–	7,895	23	471	8,783
Beginning of period (As restated)	44,488	151,660	327,711	40,313	1,680	19,437	585,289
Additions	57	34	528	743	4	10,877	12,243
Transfer from CIP	1,283	1,035	8,840	1,268	135	(12,561)	–
Assets classified as held for sale in relation to the disposal of the CDMA business	(1,105)	(4,247)	–	(70)	(20)	(30)	(5,472)
Disposals	(203)	(128)	(1,711)	(4,323)	(98)	–	(6,463)
End of period (As restated)	44,520	148,354	335,368	37,931	1,701	17,723	585,597
Representing:							
At cost	44,520	148,354	–	–	–	17,723	210,597
At valuation	–	–	335,368	37,931	1,701	–	375,000
	44,520	148,354	335,368	37,931	1,701	17,723	585,597
Accumulated depreciation and impairment:							
Beginning of period (As previously reported)	(11,809)	(85,446)	(184,801)	(17,423)	(893)	(24)	(300,396)
2009 Business Combination under common control (Note 1)	(100)	–	–	(7,001)	(5)	–	(7,106)
Beginning of period (As restated)	(11,909)	(85,446)	(184,801)	(24,424)	(898)	(24)	(307,502)
Charge for the period	(752)	(6,723)	(13,993)	(2,138)	(149)	–	(23,755)
Assets classified as held for sale in relation to the disposal of the CDMA business	171	2,623	–	22	8	–	2,824
Disposals	111	92	1,398	4,252	96	–	5,949
End of period (As restated)	(12,379)	(89,454)	(197,396)	(22,288)	(943)	(24)	(322,484)
Net book value:							
End of period (As restated)	32,141	58,900	137,972	15,643	758	17,699	263,113
Beginning of period (As restated)	32,579	66,214	142,910	15,889	782	19,413	277,787

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 30 June 2009, the carrying value of all the revalued property, plant and equipment would have been approximately RMB145,982 million (31 December 2008: approximately RMB153,772 million) had they been stated at cost less accumulated depreciation and accumulated impairment losses. The directors of the Company consider the fair values of these revalued property, plant and equipment were not materially different from their carrying values as at 30 June 2009.

For the six months ended 30 June 2009, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB7 million (for the six months ended 30 June 2008: approximately RMB42 million).

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2008: 16.5%) on the estimated assessable profit for the six months ended 30 June 2009. Taxation on profits from outside Hong Kong has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries mainly operate in the Mainland China where the applicable standard enterprise income tax rate for the six months ended 30 June 2009 is 25% (for the six months ended 30 June 2008: 25%).

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Provision for enterprise income tax on the estimated taxable profits for the period		
– Hong Kong	**7**	13
– Outside Hong Kong	**2,537**	3,630
	2,544	3,643
Deferred taxation	**(530)**	(441)
Income tax expenses	**2,014**	3,202

(All amounts in RMB millions unless otherwise stated)

6. TAXATION (Continued)

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 22 April 2009, the PRC State Administration of Taxation issued a notice regarding the determination of PRC TRE status and provided implementation guidance in withholding income tax for non-TRE enterprise shareholders. The Company performed an assessment and concluded that it meets the definition of PRC TRE. Therefore, as at 31 December 2008 and 30 June 2009, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's consolidated financial statements for the undistributed income of the Company's subsidiaries in the PRC since 1 January 2008.

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

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

		Unaudited	
		Six months ended 30 June	
	Note	**2009**	2008 (As restated)
Applicable PRC statutory tax rate		**25.0%**	25.0%
Non-deductible expenses		**0.3%**	1.0%
Tax effect of 2009 Business Combination	(a)	**—**	(1.9%)
Non-taxable income			
– Upfront connection fees arising from Fixed-line business		**(1.6%)**	(2.1%)
Impact of PRC preferential tax rates and tax holiday		**(0.5%)**	(0.2%)
Others		**0.1%**	0.1%
Effective tax rate		**23.3%**	21.9%

(a): The income tax of Fixed-line Business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin was reported on a consolidated basis with Netcom Group and Unicom Group prior to the 2009 Business Combination and no separate tax returns were prepared. No income tax expenses were therefore recognised for the Fixed-line Business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin in 2008 or prior years in accounting for the Fixed-line Business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin by using merger accounting/ predecessor values method.

(All amounts in RMB millions unless otherwise stated)

6. TAXATION (Continued)

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

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Net deferred tax assets after offsetting deferred tax liabilities:		
Beginning of period	**5,334**	2,275
Deferred tax credited/(charged) to the income statement		
– Continuing operations	**532**	434
– Discontinued operations	**—**	(72)
Deferred tax charged to equity	**(7)**	—
Assets classified as held for sale for CDMA business	**—**	(198)
End of period	**5,859**	2,439
The deferred tax liabilities that cannot be offset:		
Beginning of period	**(16)**	(55)
Deferred tax (charged)/credited to the income statement	**(2)**	7
Deferred tax credited to equity	**—**	32
End of period	**(18)**	(16)

7. OTHER ASSETS

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Direct incremental costs for activating mobile subscribers	**473**	499
Installation costs of Fixed-line business	**1,978**	2,251
Prepaid rental for premises and leased lines	**2,970**	2,121
Purchased software	**2,928**	2,877
Others	**1,599**	1,339
	9,948	9,087

(All amounts in RMB millions unless otherwise stated)

8. INVENTORIES AND CONSUMABLES

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Handsets and other customer end products	**445**	302
Telephone cards	**229**	317
Consumables	**347**	429
Others	**106**	44
	1,127	1,092

9. ACCOUNTS RECEIVABLE, NET

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Accounts receivable for Mobile business	**3,736**	3,211
Accounts receivable for Fixed-line business	**10,943**	9,592
	14,679	12,803
Less: Provision for doubtful debts for Mobile business	**(2,127)**	(1,425)
Provision for doubtful debts for Fixed-line business	**(2,638)**	(2,037)
	9,914	9,341

(All amounts in RMB millions unless otherwise stated)

9. ACCOUNTS RECEIVABLE, NET (Continued)

The aging analysis of accounts receivable is as follows:

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Within one month	**6,425**	6,750
More than one month to three months	**1,763**	1,492
More than three months to one year	**3,643**	3,012
More than one year	**2,848**	1,549
	14,679	12,803

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

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

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Prepaid rental	**787**	738
Deposits and prepayments	**1,080**	857
Advances to employees	**369**	241
Others	**386**	879
	2,622	2,715

10. PREPAYMENTS AND OTHER CURRENT ASSETS (Continued)

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

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Within one year	**2,182**	2,384
More than one year	**440**	331
	2,622	2,715

11. SHARE CAPITAL

	Unaudited	
	30 June 2009 HKD millions	31 December 2008 HKD millions
Authorised:		
30,000,000,000 ordinary shares, par value of HKD0.10 each	**3,000**	3,000

	Number of shares millions	Ordinary shares, par value of HKD0.10 each HKD millions	Share capital	Share premium	Total
Issued and fully paid:					
At 1 January 2008	13,634	1,363	1,437	64,320	65,757
Equity-settled share option schemes					
– Issuance of shares upon exercise of options (Note 23)	28	3	3	233	236
At 30 June 2008	13,662	1,366	1,440	64,553	65,993
At 1 January 2009	**23,768**	**2,377**	**2,329**	**166,784**	**169,113**
Equity-settled share option schemes					
– Issuance of shares upon exercise of options (Note 23)	**–**	**–**	**–**	**–**	**–**
At 30 June 2009	**23,768**	**2,377**	**2,329**	**166,784**	**169,113**

Increase in 28,012,000 ordinary shares during the six months ended 30 June 2008 represented the ordinary shares issued upon exercise of share options under the Company's share option schemes (Note 23).

(All amounts in RMB millions unless otherwise stated)

12. LONG-TERM BANK LOANS

	Interest rates and final maturity	Unaudited 30 June 2009	31 December 2008
RMB denominated bank loans	Floating interest rates ranging from 4.86% to 5.18% (31 December 2008: 4.86% to 6.80%) per annum with maturity through 2009 (31 December 2008: maturity through 2009)		
– unsecured		**500**	1,114
		500	1,114
USD denominated bank loans	Fixed interest rates ranging from 0% to 5.65% (31 December 2008: 0% to 5.65%) per annum with maturity through 2039 (31 December 2008: maturity through 2039)		
– secured		**142**	146
– unsecured		**369**	377
		511	523
Japanese Yen denominated bank loans	Floating interest rates of YEN LIBOR plus interest margin 3.50% per annum with maturity through 2014		
– unsecured		**199**	—
		199	—

(All amounts in RMB millions unless otherwise stated)

12. LONG-TERM BANK LOANS (Continued)

	Interest rates and final maturity	Unaudited 30 June 2009	31 December 2008
Japanese Yen denominated bank loans	Fixed interest rates of 2.12% per annum with maturity through 2014		
– unsecured		–	234
		–	234
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2008: 0.50% to 2.50%) per annum with maturity through 2034 (31 December 2008: maturity through 2034)		
– unsecured		332	342
		332	342
Sub-total		1,542	2,213
Less: Current portion		(603)	(1,216)
		939	997

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

	Unaudited 30 June 2009	31 December 2008
Balances due:		
– no later than one year	603	1,216
– later than one year and no later than two years	97	96
– later than two years and no later than five years	296	287
– later than five years	546	614
	1,542	2,213
Less: Portion classified as current liabilities	(603)	(1,216)
	939	997

(All amounts in RMB millions unless otherwise stated)

12. LONG-TERM BANK LOANS (Continued)

(a) The fair values of the Group's non-current portion of long-term bank loans at 30 June 2009 and 31 December 2008 were as follows:

	Unaudited	
	30 June 2009	31 December 2008
Long-term bank loans	**649**	690

The fair value is based on cash flows discounted using rates per annum based on the market rates ranging from 4.86% to 5.18% (31 December 2008: 4.59% to 6.56%).

(b) As at 30 June 2009, bank loans of approximately RMB141 million (31 December 2008: approximately RMB146 million) were secured by corporate guarantees granted by third parties.

13. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

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

14. PAYABLES AND ACCRUED LIABILITIES

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Payables to contractors and equipment suppliers	**58,804**	52,800
Payables to telecommunications product suppliers	**1,993**	1,685
Customer/contractor deposits	**2,379**	2,261
Repair and maintenance expense payables	**2,059**	1,650
Salary and welfare payables	**1,900**	1,129
Commission expenses payables	**1,780**	1,406
Interest payables	**585**	263
Amounts due to service providers/content providers	**951**	984
Accrued expenses	**2,885**	1,892
Others	**3,533**	3,439
	76,869	67,509

(All amounts in RMB millions unless otherwise stated)

14. PAYABLES AND ACCRUED LIABILITIES (Continued)

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

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Less than six months	**58,677**	53,380
Six months to one year	**8,383**	7,090
More than one year	**9,809**	7,039
	76,869	67,509

15. SHORT-TERM COMMERCIAL PAPER

On 6 October 2008, CNC China issued RMB10 billion unsecured commercial paper with repayment period of 365 days in the PRC capital market. The effective interest rate is 4.47% per annum. The net cash proceeds raised in the PRC capital market were RMB10 billion.

16. SHORT-TERM BANK LOANS

		Unaudited	
	Interest rates and final maturity	**30 June 2009**	31 December 2008
RMB denominated bank loans	Fixed interest rates ranging from 2.00% to 4.37% (31 December 2008: 4.54% to 6.80%) per annum with maturity through 2009 (31 December 2008: maturity through 2009)		
– unsecured		**11,780**	10,780
		11,780	10,780

The carrying values of short-term bank loans approximated their fair values as at the balance sheet date.

(All amounts in RMB millions unless otherwise stated)

17. REVENUE

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

Revenue from continuing operations is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to approximately RMB2,205 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: approximately RMB2,348 million).

The major components of revenue for continuing operations are as follows:

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Continuing operations:		
Mobile business		
– Usage and monthly fees	**21,008**	20,852
– Value-added services revenue	**9,155**	7,845
– Interconnection revenue	**3,892**	3,320
– Other service revenue	**139**	333
Total mobile telecommunications service revenue	**34,194**	32,350
Fixed-line business		
– Usage and monthly fees	**17,653**	21,611
– Broadband services revenue	**11,726**	10,630
– Interconnection revenue	**2,869**	3,638
– Value-added services revenue	**2,722**	3,630
– Leased line income	**2,847**	2,717
– Other Internet-related services and managed data services revenue	**1,153**	1,205
– Upfront connection fees	**283**	505
– Other service revenue	**939**	1,394
Total fixed-line telecommunications service revenue	**40,192**	45,330
Unallocated telecommunications service revenue	**127**	170
Total telecommunications service revenue	**74,513**	77,850
Information communication technology services and other revenue	**1,146**	2,898
Sales of telecommunications products	**660**	711
Total revenue from external customers	**76,319**	81,459

(All amounts in RMB millions unless otherwise stated)

18. NETWORK, OPERATIONS AND SUPPORT EXPENSES

	Note	Unaudited Six months ended 30 June 2009	Unaudited Six months ended 30 June 2008 (As restated)
Continuing operations:			
Repair and maintenance		**3,213**	2,859
Power and water charges		**3,464**	2,678
Operating leases	(a)	**2,303**	2,149
Consumables		**646**	609
Others		**480**	338
Total networks, operations and support expenses		**10,106**	8,633

(a): The operating lease expenses represent the rental charges for premises, equipment and facilities.

19. EMPLOYEE BENEFIT EXPENSES

	Note	Unaudited Six months ended 30 June 2009	Unaudited Six months ended 30 June 2008 (As restated)
Continuing operations:			
Salaries and wages		**8,578**	8,070
Contributions to defined contribution pension schemes		**1,256**	1,110
Contributions to housing fund		**632**	552
Other housing benefits		**59**	156
Share-based compensation cost	23	**21**	40
Total employee benefit expenses		**10,546**	9,928

(All amounts in RMB millions unless otherwise stated)

20. OTHER OPERATING EXPENSES

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Continuing operations:		
Provision for doubtful debts	**1,282**	1,398
Cost of telecommunications products sold	**817**	919
Cost in relation to information communication technology services	**401**	1,763
Commission expenses	**5,929**	5,602
Advertising and promotion expenses	**1,436**	1,224
Customer installation cost	**1,182**	1,051
Customer acquisition and retention cost	**876**	934
Property management charge	**688**	527
Office and administrative expenses	**1,232**	1,262
Transportation expense	**783**	802
Miscellaneous taxes and fees	**311**	296
Others	**1,614**	1,833
Total other operating expenses	**16,551**	17,611

(All amounts in RMB millions unless otherwise stated)

21. FINANCE COSTS

		Unaudited	
		Six months ended 30 June	
	Note	**2009**	2008 (As restated)
Continuing operations:			
Finance costs:			
– Interest on bank loans repayable within 5 years		**267**	1,016
– Interest on corporate bonds and commercial paper repayable within 5 years		**353**	343
– Interest on bank loans repayable over 5 years		**3**	8
– Interest on corporate bonds repayable over 5 years		**45**	45
– Interest on deferred consideration	(a)	**—**	148
– Less: Amounts capitalised in construction-in-progress		**(397)**	(158)
Total interest expense		**271**	1,402
– Exchange gain, net		**(12)**	(300)
– Others		**104**	90
Total finance costs		**363**	1,192

(a): In 2005, China Netcom acquired the principal telecommunications operations, assets and liabilities in the four Northern provinces/ autonomous region, namely Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province from Netcom Group (the "Acquisition of Netcom New Horizon"). The consideration for the Acquisition of Netcom New Horizon was RMB12,800 million which consisted of an initial cash payment of RMB3,000 million and deferred payments of RMB9,800 million. The deferred payments were settled in half-yearly installments over five years. The interest charged on the deferred payments was calculated at 5.265% per annum. In 2008, the Group fully repaid the amount.

(All amounts in RMB millions unless otherwise stated)

22. OTHER INCOME – NET

Other income for the six months ended 30 June 2008 primarily represented the gain on the non-monetary assets exchange of approximately RMB610 million arising from the replacement of the Group's copper cables in some fixed-line network infrastructure with optical fibers and related equipment.

23. EQUITY-SETTLED SHARE OPTION SCHEMES

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, 11 May 2007 and 26 May 2009.

In connection with the merger between the Company and China Netcom in 2008, the Company adopted the Special Purpose Share Option Scheme ("Special Purpose Share Option Scheme") on 16 September 2008 for the granting of share options to holders of China Netcom options outstanding at 14 October 2008, with terms amended on 26 May 2009.

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

	Unaudited			
	Six months ended 30 June			
	2009		2008	
	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**	**413,074,166**	7.12	257,279,600
Granted	**—**	**—**	—	—
Forfeited	**—**	**—**	6.32	(2,070,000)
Exercised	**—**	**—**	7.80	(28,012,000)
Balance, end of period	**6.95**	**413,074,166**	7.04	227,197,600

No options were exercised during the six months ended 30 June 2009. Exercise of share options during the six months ended 30 June 2008 resulted in 28,012,000 shares being issued, with exercise proceeds of approximately RMB199 million.

As at 30 June 2009, out of the 413,074,166 outstanding share options (31 December 2008: 413,074,166), 367,720,137 share options (31 December 2008: 245,359,027) were exercisable, and the weighted average exercise price was HKD6.79 (31 December 2008: HKD7.14).

(All amounts in RMB millions unless otherwise stated)

23. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

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

Date of options grant	Vesting period	Exercisable period	Exercise price	Number of share options outstanding as at 30 June 2009	Number of share options outstanding as at 31 December 2008
Share options granted under the Pre-Global Offering Share Option Scheme:					
22 June 2000	22 June 2000 to 21 June 2002	22 June 2002 to 21 June 2010	HKD15.42	**16,977,600**	16,977,600
Share options granted under the Share Option Scheme:					
30 June 2001	30 June 2001	30 June 2001 to 22 June 2010	HKD15.42	**4,350,000**	4,350,000
21 May 2003 (Note i)	21 May 2003 to 21 May 2006	21 May 2004 to 20 May 2010	HKD4.30	**8,956,000**	8,956,000
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2010	HKD5.92	**41,024,000**	41,024,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2010	HKD6.20	**654,000**	654,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2012	HKD6.35	**151,556,000**	151,556,000
Share options granted under the Special Purpose Share Option Scheme:					
15 October 2008 ("2004 Special Purpose Share Options")	15 October 2008 to 17 May 2009	15 October 2008 to 16 November 2010	HKD5.57	**100,627,098**	100,627,098
15 October 2008 ("2005 Special Purpose Share Options")	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2011	HKD8.26	**88,929,468**	88,929,468
				413,074,166	413,074,166

The options outstanding as at 30 June 2009 had a weighted average remaining contractual life of 2.00 years (31 December 2008: 2.47 years).

Note i : The original expiration date for these options was 20 May 2009. As these options were not exercisable due to a "Mandatory Moratorium" as set forth in the Share Option Scheme, they were extended to 20 May 2010 pursuant to amendment of the Share Option Scheme approved by the shareholders of the Company on 26 May 2009. The modifications did not have any significant impact on the unaudited condensed consolidated interim financial information for the six months ended 30 June 2009.

(All amounts in RMB millions unless otherwise stated)

23. EQUITY-SETTLED SHARE OPTION SCHEMES (Continued)

No share options of the Company were exercised during the six months ended 30 June 2009. Details of share options of the Company exercised during the six months ended 30 June 2008 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective days immediately before date of exercise of options HKD	Proceeds received HKD	Number of shares involved
22 June 2000	15.42	18.73	63,980,664	4,149,200
30 June 2001	15.42	18.38	18,781,560	1,218,000
10 July 2002	6.18	17.78	7,786,800	1,260,000
21 May 2003	4.30	18.08	7,691,840	1,788,800
20 July 2004	5.92	18.10	55,671,680	9,404,000
15 February 2006	6.35	17.74	64,719,200	10,192,000
			218,631,744	28,012,000

For the six months ended 30 June 2009, employee share-based compensation costs recorded for continuing operations amounted to approximately RMB21 million (for the six months ended 30 June 2008: approximately RMB40 million).

(All amounts in RMB millions unless otherwise stated)

24. DISPOSAL GROUP AND DISCONTINUED OPERATIONS

Discontinued operations:

On 2 June 2008 and 27 July 2008, the Company, CUCL and China Telecom entered into the Framework Agreement and the Disposal Agreement, respectively, to sell the CDMA business to China Telecom. The disposal was completed on 1 October 2008.

The results and cash flows of the CDMA business for the six months ended 30 June 2008 are presented as discontinued operations as follows:

	Unaudited
	Six months ended 30 June 2008 (As restated)
Revenue	15,415
Expenses	(14,533)
Profit before income tax from discontinued operations	882
Income tax expenses	(227)
Profit for the period from discontinued operations	655
Net cash inflow from operating activities	1,149
Net cash outflow from investing activities	(23)
Net cash inflow from financing activities	—
Net cash inflow from discontinued operations	1,126

(All amounts in RMB millions unless otherwise stated)

25. DIVIDENDS

At the annual general meeting held on 26 May 2009, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended 31 December 2008 totaling approximately RMB4,754 million (for the year ended 31 December 2007: approximately RMB6,231 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2009. As at 30 June 2009, such dividends have been paid by the Company, except for dividends payable of approximately RMB308 million and RMB719 million due to Unicom BVI and Netcom BVI, respectively.

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Dividend paid:		
By the Company	**4,754**	2,732
By China Netcom (Note a)	**—**	3,499
	4,754	6,231

Note a : Since the merger between the Company and China Netcom in 2008 was accounted for as a business combination of entities under common control, accordingly, the dividend paid was restated to include China Netcom as if it had always been part of the Group.

26. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2009 and 2008 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the periods, as adjusted by the number of ordinary shares in issue had the merger with China Netcom been completed on 1 January 2008.

Diluted earnings per share for the six months ended 30 June 2009 and 2008 were computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the periods, as adjusted by the number of ordinary shares in issue had the merger with China Netcom been completed on 1 January 2008, 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) share options granted under the amended Special Purpose Share Option Scheme.

The potential ordinary shares which are not dilutive mainly arose from share options with exercise price of HKD15.42 granted under the amended Pre-Global Offering Share Option Scheme and amended Share Option Scheme and share options with exercise price of HKD8.26 granted under the amended Special Purpose Share Option Scheme, and are excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

26. EARNINGS PER SHARE (Continued)

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

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Numerator (in RMB millions):		
Profit attributable to equity holders of the Company		
– Continuing operations	**6,616**	11,436
– Discontinued operations	**—**	654
	6,616	12,090
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	**23,768**	23,735
Dilutive equivalent shares arising from share options	**94**	250
Shares used in computing diluted earnings per share	**23,862**	23,985
Basic earnings per share (in RMB)		
– Continuing operations	**0.28**	0.48
– Discontinued operations	**—**	0.03
	0.28	0.51
Diluted earnings per share (in RMB)		
– Continuing operations	**0.28**	0.48
– Discontinued operations	**—**	0.03
	0.28	0.51

27. RELATED PARTY TRANSACTIONS

Unicom Group and Netcom Group are state-owned enterprises 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 and Netcom Group, directly or indirectly controlled by the PRC government are also considered to be related parties of the Group. Neither Unicom Group and Netcom Group nor the PRC government publishes financial statements available for public use.

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

Management considers other state-owned enterprises, which mainly include other telecommunications service operators and state-owned banks in the PRC, have material transactions with the Group in its ordinary course of business. These transactions are carried out on terms similar to those obtained by other non state-owned parties and have been reflected in the unaudited condensed consolidated interim financial information. The Group's telecommunications networks depend, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. Management believes that meaningful information relating to related party transactions has been adequately disclosed below.

(All amounts in RMB millions unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

27.1 Transactions with Unicom Group, Netcom Group and their subsidiaries

(a) Significant recurring transactions

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

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Transactions with Unicom Group, Netcom Group and their subsidiaries:		
Continuing operations:		
Leasing fee of Telecommunications Networks in Southern China	**907**	—
Charges for cellular subscriber value-added services	**78**	58
Rental charges for premises, equipment and facilities	**402**	330
Charges for the international gateway services	**3**	4
Agency fee incurred for procurement of telecommunications equipment	**6**	9
Charge for engineering and information technology-related services	**494**	916
Common corporate services income	**—**	62
Charges for common corporate services	**132**	206
Rental income from properties	**—**	1
Purchases of materials	**125**	228
Charges for ancillary telecommunications support services	**312**	274
Charges for support services	**123**	222
Charges for lease of telecommunications facilities	**74**	164
Income from information communication technologies services	**42**	68
Income from engineering design and technical services	**4**	27
Discontinued operations:		
Charges for cellular subscriber value-added service	**—**	40
CDMA network capacity lease rental charges	**—**	4,095
Constructed capacity related cost of the CDMA network	**—**	160

27. RELATED PARTY TRANSACTIONS (Continued)

27.1 Transactions with Unicom Group, Netcom Group and their subsidiaries (Continued)

(a) Significant recurring transactions (Continued)

(i) On 26 October 2006, CUCL entered into a new agreement "2006 Comprehensive Services Agreement" to continue to carry out related party transactions. The new agreement was approved by the independent shareholders of the Company on 1 December 2006, and become effective from 1 January 2007.

Pursuant to the ordinary resolution passed at the extraordinary general meeting held on 16 September 2008, the independent shareholders of the Company approved the 2006 Comprehensive Services Agreement be amended with effect from 15 October 2008 to include CNC China as a party.

Also, the independent shareholders of the Company approved the following agreements:

— Framework Agreement for Engineering and Information Technology Services dated 12 August 2008

— Engineering and Information Technology Services Agreement 2008-2010

— Domestic Interconnection Settlement Agreement 2008-2010

— International Long Distance Voice Services Settlement Agreement 2008-2010

— Framework Agreement for Interconnection Settlement dated 12 August 2008

Under HKFRS and IFRS, the 2009 Business Combination has been accounted for using merger accounting/predecessor values method. Accordingly, the transactions between the Target Business and the Group were eliminated and not disclosed as related party transactions in the unaudited condensed consolidated interim financial information.

(ii) On 16 December 2008, CUCL, Unicom Group, Netcom Group and Unicom New Horizon entered into the Network Lease Agreement in relation to the Lease of the Telecommunications Networks in Southern China by CUCL from Unicom New Horizon on an exclusive basis immediately following the completion of the 2009 Business Combination. Under the Network Lease Agreement, CUCL shall pay leasing fees of RMB2.0 billion and RMB2.2 billion for the two financial years ending 31 December 2009 and 31 December 2010, respectively. The Lease became effective in January 2009. For details, please refer to Note 1.

(All amounts in RMB millions unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

27.1 Transactions with Unicom Group, Netcom Group and their subsidiaries (Continued)

(b) Other significant transaction

In January 2009, CUCL completed the acquisitions of certain assets and businesses from Unicom Group and Netcom Group. For details, please refer to Note 1(a).

(c) Amounts due from and to related parties/Unicom Group, Netcom Group and their subsidiaries

Amounts due to related parties as at 30 June 2009 included an unsecured short-term loan from Netcom BVI of approximately RMB1,410 million obtained for the purpose of payment of 2008 final dividend of the Company. The loan carries an interest rate of six-month HIBOR plus 0.8% per annum and is repayable on 16 June 2010.

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

27.2 Domestic carriers

(a) Significant recurring transactions with domestic carriers

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

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Interconnection revenue	**5,934**	5,577
Interconnection charges	**5,726**	5,401
Leased line revenue	**204**	276
Leased line charges	**58**	127
Engineering design and technical service revenue	**180**	109

(All amounts in RMB millions unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

27.2 Domestic carriers (Continued)

(b) Amounts due from and to domestic carriers

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Amounts due from domestic carriers		
– Receivables for interconnection revenue, leased line revenue and engineering design and technical service revenue	**1,403**	1,033
– Less: Provision for doubtful debts	**(62)**	(59)
	1,341	974
Amounts due to domestic carriers		
– Payables for interconnection charges and leased line charges	**(1,230)**	(956)

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

(c) Disposal of the Group's CDMA business to China Telecom

Balances due to/from China Telecom in relation to the disposal of CDMA business are as follows:

	Unaudited	
	30 June 2009	31 December 2008
Payables		
– Advances from customers received on behalf of China Telecom	**(182)**	(768)
– Cash to be transferred upon the final agreement of the values of assets and liabilities transferred to China Telecom in accordance with the Disposal Agreement	**—**	(3,464)
	(182)	(4,232)
Proceeds receivable	**5,437**	13,140

(All amounts in RMB millions unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

27.3 Other major state-owned financial institutions

(a) Transactions with other major state-owned financial institutions in the PRC

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

	Unaudited	
	Six months ended 30 June	
	2009	2008 (As restated)
Finance income/costs, include:		
– Interest income	**50**	119
– Interest expense	**270**	1,769
Short-term bank loans received	**17,730**	36,402
Long-term bank loans received	**—**	2,390
Short-term bank loans repaid	**16,730**	17,514
Short-term commercial paper repaid	**—**	20,000
Long-term bank loans repaid	**668**	6,332

In addition, the Group's corporate bonds are secured by corporate guarantees granted by Bank of China Limited and State Grid Corporation of China, respectively. Please refer to Note 13 for details.

(All amounts in RMB millions unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

27.3 Other major state-owned financial institutions (Continued)

(b) Amounts due from and to other major state-owned financial institutions in the PRC

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

	Unaudited	
	30 June 2009	31 December 2008 (As restated)
Current assets		
Short-term bank deposits	**172**	337
Cash and cash equivalents	**7,463**	9,671
Non-current liabilities		
Long-term bank loans	**787**	842
Corporate bonds	**7,000**	7,000
Current liabilities		
Short-term bank loans	**11,780**	10,780
Short-term commercial paper	**10,000**	10,000
Current portion of long-term bank loans	**595**	1,208

27. RELATED PARTY TRANSACTIONS (Continued)

27.4 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2009 and 2008 are set out below:

	Unaudited	
	Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000)
Non-executive directors:		
Fees	**1,145**	963
Other benefits (a)	**—**	106
	1,145	1,069
Executive directors:		
Fees	**—**	—
Other emoluments		
– Salaries and allowances	**4,188**	5,126
– Bonuses paid and payable	**1,644**	3,593
– Other benefits (a)	**46**	920
– Contributions to pension schemes	**51**	87
	5,929	9,726
	7,074	10,795

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

(All amounts in RMB millions unless otherwise stated)

28. CONTINGENCIES AND COMMITMENTS

28.1 Capital commitments

As at 30 June 2009 and 31 December 2008, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited			
	30 June 2009			31 December 2008 (As restated)
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	**525**	**8,255**	**8,780**	6,149
Authorised but not contracted for	**576**	**10,399**	**10,975**	6,938
Total	**1,101**	**18,654**	**19,755**	13,087

As at 30 June 2009, approximately RMB149 million (31 December 2008: approximately RMB159 million) of capital commitments was denominated in US dollars, equivalent to approximately USD22 million (31 December 2008: approximately USD23 million).

(All amounts in RMB millions unless otherwise stated)

28. CONTINGENCIES AND COMMITMENTS (Continued)

28.2 Operating lease commitments

As at 30 June 2009 and 31 December 2008, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	Unaudited				
	30 June 2009				31 December 2008 (As restated)
	Land and buildings	Equipment	Lease of tele-communications networks (a)	Total	Total
Leases expiring:					
– no later than one year	1,293	977	2,193	4,463	1,851
– later than one year and no later than five years	2,951	1,415	1,100	5,466	4,657
– later than five years	1,265	145	–	1,410	1,957
Total	5,509	2,537	3,293	11,339	8,465

(a) The lease commitments in relation to telecommunications networks related to the lease arrangement of the Telecommunications Networks in Southern China between CUCL and Unicom New Horizon and was estimated based on the annual leasing fees pursuant to the Network Lease Agreement. Please refer to Note 1(b) for details.

28.3 Contingent liabilities

As aforementioned in Note 17, the tariffs for the services provided by the Group are subject to regulations by various government authorities. In 2008, the NDRC investigated the compliance with tariffs regulations of several branches of CUCL and CNC China. Based on management's assessment and continuous discussions with MIIT and NDRC, management considered that the Group complied with the regulations issued by the relevant government authorities for all periods covered by the investigation, and the likelihood of a cash outflow as a result of the investigation is remote. Accordingly, no provisions in relation to the investigation were recorded as at 30 June 2009 and 31 December 2008.

29. EVENTS AFTER BALANCE SHEET DATE

On 28 August 2009, the Company and Apple Inc. reached a three year agreement for the Company to sell iPhone in China. The initial launch is expected to be in the fourth calendar quarter of 2009.

30. COMPARATIVE FIGURES

As stated in Note 2, the 2008 comparative figures have been restated as a result of a number of business combinations between entities under common control accounted for using merger accounting/predecessor values method as well as the adoption of a number of new/revised standards, amendments to standards and interpretations throughout 2008 and for the six months ended 30 June 2009.

31. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 28 August 2009.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF CHINA UNICOM (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 12 to 65, which comprises the condensed consolidated interim balance sheet of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the 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 to be in compliance with either International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IAS 34") or Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKAS 34"), depending on whether the issuer's annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") or Hong Kong Financial Reporting Standards ("HKFRSs") respectively. As the annual financial statements of the Group are prepared in accordance with both IFRSs and HKFRSs, the directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with both IAS 34 and HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2009

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 Share Option Scheme is valid and effective for a period of 10 years commencing on 21 June 2000, after which period no further options will be granted under the Share Option Scheme but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The terms of the Share Option Scheme were amended on 13 May 2002, 11 May 2007 and 26 May 2009, respectively. Under the amended Share Option Scheme:

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

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

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

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

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

   (a) the nominal value of the shares;

   (b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on the offer date in respect of the options; and

   (c) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the offer date;

(6) the total number of shares in the Company issued and to be issued upon exercise of the options granted to a participant of the Share Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and

(7) the consideration payable for each grant is HKD1.00.

As at 30 June 2009, 206,540,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.87% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 2,772,000 share options were held by the Directors and their associates as at 30 June 2009. Please refer to the subsection headed "Share Option Schemes of the Company - 5. Interests of Directors, Chief Executives and Employees under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme" for details. All of the options granted and outstanding as at 30 June 2009 are governed by the amended terms of the Share Option Scheme.

During the six months ended 30 June 2009, no options granted under the Share Option Scheme had been exercised.

As at 30 June 2009, the number of options available for issue under the Share Option Scheme is 608,926,107 options, representing approximately 2.56% of issued share capital of the Company as at the latest practicable date prior to the printing of this interim report.

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"). The Pre-Global Offering Share Option Scheme is valid and effective for a period of 10 years commencing on 21 June 2000, after which period no further options will be granted but the provisions of the Pre-Global Offering Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of 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, 11 May 2007 and 26 May 2009, respectively. The amended terms of the Pre-Global Offering Share Option Scheme are substantially the same as those of 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.

As at 30 June 2009, 16,977,600 share options had been granted and remained valid under the Pre-Global Offering Share Option Scheme of the Company, representing approximately 0.07% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, no option was held by the Directors as at 30 June 2009. All of the options granted and outstanding as at 30 June 2009 are governed by the amended terms of the Pre-Global Offering Share Option Scheme.

During the six months ended 30 June 2009, no options granted under the Pre-Global Offering Share Option Scheme had been exercised.

3. Special Purpose Share Option Scheme

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

A. Grant of Special Unicom Options and Exercise Price

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

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

where:

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

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

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

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

Based on the formulae set out above, the exercise price of a Special Purpose 2004 Unicom Option (as defined below) is HKD5.57 and the exercise price of a Special Purpose 2005 Unicom Option (as defined below) is HKD8.26.

The Board has the right to make corresponding alterations to the number of shares involved in the Special Unicom Options and the exercise price in the event of a capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital. Such adjustments shall give the Eligible Participants the same proportion of the issued share capital to which they would have been entitled prior to such alteration, and shall not cause the Company's shares to be issued below its par value.

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

B. Exercise of Special Unicom Options

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

(i) Special Unicom Options granted to the Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the "2004 Netcom Options") and held as at the Scheme Record Time (the "Special Purpose 2004 Unicom Options") are effective from 15 October 2008 until 16 November 2010. Any Special Purpose 2004 Unicom Option not exercised by 16 November 2010 shall lapse automatically. The respective exercise periods of the options granted under the Special Purpose 2004 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 5. Interests of Directors, Chief Executives and Employees under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme" below; and

(ii) Special Unicom Options granted to Eligible Participants in respect of the 2005 Netcom Options granted to them on 6 December 2005 (the "2005 Netcom Options") and held by them as at the Scheme Record Time (the "Special Purpose 2005 Unicom Options") are effective from 15 October 2008 until 5 December 2011. Any Special Purpose 2005 Unicom Option not exercised by 5 December 2011 shall lapse automatically. The respective exercise periods of the options granted under the Special Purpose 2005 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company - 5. Interests of Directors, Chief Executives and Employees under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme" below.

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

As at 30 June 2009, 189,556,566 share options had been granted and remained valid under the Special Purpose Share Option Scheme of the Company, representing approximately 0.80% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. Among these share options, 686,894 options were held by a Director as at 30 June 2009. All of the options granted and outstanding as at 30 June 2009 are governed by the amended terms of the Special Purpose Share Option Scheme.

During the six months ended 30 June 2009, no options granted under the Special Purpose Share Option Scheme had been exercised.

4. Financial Impact and Valuation of Share Options

For the share options granted under the Share Option Scheme and the Pre-Global Share Option Scheme, the Company recognised share-based employee compensation costs over the vesting period based on the estimated fair value of share options on the grant date by using the Black-Scholes valuation model in which no impact of any non-market vesting conditions is considered. In connection with the merger with China Netcom, the grant of Special Unicom Options was accounted for as a modification in accordance with International Financial Reporting Standards ("IFRS") / Hong Kong Financial Reporting Standards ("HKFRS") 2 "Share-based Payment" issued by the International Accounting Standards Board ("IASB") / Hong Kong Institute of Certified Public Accountants ("HKICPA"), respectively. The incremental fair value of the options measured before and after the modification (by using the Black-Scholes valuation model in which no impact of any non-market vesting conditions is considered) is recognised as expense over the remaining vesting period.

5. Interest of Directors, Chief Executives and Employees under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme

	Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2009[1]	Movement During the Period Granted[1]	Movement During the Period Exercised[1]	Movement During the Period Forfeited[1]	No. of Options Outstanding as at 30 June 2009[1]
Directors								
Chang Xiaobing (Chairman and CEO)	Beneficial owner (Personal)	21 December 2004	6.20	526,000	–	–	–	526,000
		15 February 2006	6.35	746,000	–	–	–	746,000
								1,272,000
Lu Yimin	–	–	–	–	–	–	–	–
Zuo Xunsheng	Beneficial owner (Personal)	15 October 2008	5.57	686,894	–	–	–	686,894
Tong Jilu	Beneficial owner (Personal)	30 June 2001	15.42	292,000	–	–	–	292,000
		20 July 2004	5.92	92,000	–	–	–	92,000
		15 February 2006	6.35	460,000	–	–	–	460,000
	Beneficial owner (Spouse)	20 July 2004	5.92	32,000	–	–	–	32,000
		15 February 2006	6.35	40,000	–	–	–	40,000
								916,000
Cesareo Alierta Izuel	–	–	–	–	–	–	–	–
Jung Man Won	–	–	–	–	–	–	–	–
Wu Jinglian	Beneficial owner (Personal)	21 May 2003	4.30	292,000	–	–	–	292,000
		20 July 2004	5.92	292,000	–	–	–	292,000
								584,000
Cheung Wing Lam Linus	–	–	–	–	–	–	–	–
Wong Wai Ming	–	–	–	–	–	–	–	–
John Lawson Thornton	–	–	–	–	–	–	–	–
Timpson Chung Shui Ming	–	–	–	–	–	–	–	–

Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2009[1]	Movement During the Period Granted[1]	Exercised[1]	Forfeited[1]	No. of Options Outstanding as at 30 June 2009[1]
Employees	22 June 2000	15.42	16,977,600	–	–	–	16,977,600
	30 June 2001	15.42	4,058,000	–	–	–	4,058,000
	21 May 2003	4.30	8,664,000	–	–	–	8,664,000
	20 July 2004	5.92	40,608,000	–	–	–	40,608,000
	21 December 2004	6.20	128,000	–	–	–	128,000
	15 February 2006	6.35	150,310,000	–	–	–	150,310,000
	15 October 2008	5.57	99,940,204	–	–	–	99,940,204
	15 October 2008	8.26	88,929,468	–	–	–	88,929,468
							409,615,272[2]
Total			**413,074,166**				**413,074,166**

Notes:

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

2. The options outstanding as at 30 June 2009 include approximately 25,000,000 options held by the option holders who were determined by the Board as "Transferred Personnel" under the applicable share option schemes due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring.

3. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Pre-Global Offering Share Option Scheme:		
22 June 2000	15.42	22 June 2002 to 21 June 2010
Options Granted under the Share Option Scheme:		
30 June 2001	15.42	30 June 2001 to 22 June 2010
21 May 2003	4.30	21 May 2004 to 20 May 2010** (in respect of 40% of the options granted) 21 May 2005 to 20 May 2010** (in respect of 30% of the options granted) 21 May 2006 to 20 May 2010** (in respect of the remaining 30% of the options granted)
20 July 2004	5.92	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	6.20	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	6.35	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)

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Special Purpose Share Option Scheme:		
15 October 2008	5.57	15 October 2008 to 16 November 2010 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2006 to 16 November 2010; 17 May 2007 to 16 November 2010 and 17 May 2008 to 16 November 2010, respectively) 17 May 2009 to 16 November 2010 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2009 to 16 November 2010)
15 October 2008	8.26	15 October 2008 to 5 December 2011 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2007 to 5 December 2011) 6 December 2008 to 5 December 2011 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2008 to 5 December 2011) 6 December 2009 to 5 December 2011 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2009 to 5 December 2011) 6 December 2010 to 5 December 2011 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2010 to 5 December 2011)

* *The exercise periods of approximately 25,000,000 options (as discussed in Note 2 above) were extended by one year by the Board pursuant to amendments to each of the Pre-Global Offering Share Option Scheme and the Share Option Scheme as approved by shareholders on 26 May 2009. The reasons for such extension were (i) that the holders of those options were determined by the Board as "Transferred Personnel" under the respective terms of the Pre-Global Offering Share Option Scheme and the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring, and (ii) that those options were not exercisable due to a "Mandatory Moratorium" under the Pre-Global Offering Share Option Scheme and the Share Option Scheme.*

** *The original expiry date for these options was 20 May 2009, which was extended to 20 May 2010 by the Board pursuant to amendments to the Share Option Scheme as approved by shareholders on 26 May 2009, because those options were not exercisable due to a "Mandatory Moratorium" under the respective terms of the Share Option Scheme.*

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

As at 30 June 2009, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Director	Capacity	Ordinary Shares Held	Percentage of Total Issued Shares
Timpson Chung Shui Ming	Beneficial owner (Personal)	6,000	0.0000%

Please refer to the subsection headed "Share Option Schemes of the Company - 5. Interests of Directors, Chief Executives and Employees under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme" for the interests and rights to acquire shares held by the Directors and the chief executive of the Company as at 30 June 2009 under the Pre-Global Offering Share Option Scheme, the Share Option Scheme and the Special Purpose Share Option Scheme.

Apart from those disclosed herein, at no time during the six months ended 30 June 2009 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquiring shares or debentures of the Company or any of its associated corporations (as defined in the SFO).

Furthermore, apart from those disclosed herein, as at 30 June 2009, none of the Directors or the chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

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

The following table sets out the interests and short positions of each person, other than a director or a chief executive of the Company, in the shares or underlying shares of the Company as notified to the Company and recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2009:

		Ordinary Shares Held		Percentage of Total
		Directly	Indirectly	Issued Shares
(i)	China United Network Communications Group Company Limited ("Unicom Group")[1, 2]	—	16,959,075,926	71.35%
(ii)	China United Network Communications Limited ("Unicom A Share Company", formerly known as "China United Telecommunications Corporation Limited")[1]	—	9,725,000,020	40.92%
(iii)	China Unicom (BVI) Limited ("Unicom BVI")[1]	9,725,000,020	—	40.92%
(iv)	China Netcom Group Corporation (BVI) Limited ("Netcom BVI")[2,3]	7,008,353,114	225,722,792	30.44%
(v)	Telefónica Internacional S.A.U.	1,278,403,444	—	5.38%

Notes:

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

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

3. Netcom BVI holds 7,008,353,114 shares (representing 29.49% of the total issued shares) of the Company directly and 1 share of the Company through CNC Cayman Limited, a wholly-owned subsidiary of Netcom BVI. In addition, Netcom BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.95% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 30 June 2009, no person had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Please also refer to Note 11 to the financial statements for details of the 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 2009 will be paid.

CHARGE ON ASSETS

As at 30 June 2009, no property, plant and equipment was pledged to banks as loan security (31 December 2008: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2009, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

BOARD OF DIRECTORS

The directors during the period were:

Executive Directors:
Chang Xiaobing (Chairman and CEO)
Lu Yimin
Zuo Xunsheng
Tong Jilu

Non-Executive Directors:
Cesareo Alierta Izuel
Jung Man Won (appointed on 22 January 2009)
Kim Shin Bae (resigned on 22 January 2009)

Independent Non-Executive Directors:
Wu Jinglian
Cheung Wing Lam Linus
Wong Wai Ming
John Lawson Thornton
Timpson Chung Shui Ming

CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of some of the Directors since the publication of the Company's 2008 annual report:

- Since May 2009, each of Mr. Lu Yimin and Mr. Zuo Xunsheng has served as director of Unicom A Share Company.
- Since May 2009, the title of Mr. Cheung Wing Lam Linus at Asia Television Limited has changed from Executive Chairman to Chairman.
- Since July 2009, Mr. Timpson Chung Shui Ming has served as Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong. Mr. Chung has also served as an independent director of China State Construction Eng. Corp. Ltd., the shares of which listed on the Shanghai Stock Exchange in July 2009.

AUDIT COMMITTEE

The major responsibilities of the Audit Committee include: considering and approving the appointment, resignation and removal of external auditors; pre-approval of services and fees to be provided by the external auditors based on the established pre-approval framework; supervising the external auditors and determining the potential impact of non-audit services on such auditors' independence; reviewing quarterly, interim financial information and annual financial statements; coordinating and discussing with external auditors any problems and comments raised by them during statutory audits; reviewing any correspondence from the external auditors to the management and responses of the management; and reviewing the relevant reports concerning the internal control procedures of the Company. The committee meets at least four times each year, and assists the Board in its review of the financial information or financial statements to ensure effective internal controls and efficient auditing.

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2009.

The Audit Committee comprises five independent non-executive directors, Mr. Wong Wai Ming, Mr. Wu Jinglian, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton and Mr Timpson Chung Shui Ming. Mr. Wong Wai Ming currently serves as the Chairman of the committee.

REMUNERATION COMMITTEE

The major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies proposed by management, the remuneration scheme of Directors and senior management as well as the share option schemes. The Remuneration Committee conducts performance appraisals for the Chief Executive Officer (the "CEO") and determines his year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance appraisal and determination of performance-based year-end bonuses for the other members of the Company's management. The results are subject to review by the Remuneration Committee. The Remuneration Committee meets at least once a year.

The Remuneration Committee consists of five independent non-executive directors, Mr. Wu Jinglian, Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, Mr. John Lawson Thornton and Mr Timpson Chung Shui Ming. The Chairman of the Remuneration 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 2009 except the followings:

(a) Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The Board understands that the principle of Code Provision A.2.1 is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. Mr. Chang Xiaobing has served as Chairman and the CEO of the Company since December 2004. Mr. Lu Yimin served as the Company's President since 13 February 2009. Mr. Chang Xiaobing is responsible for chairing the Board and for all material affairs, including development, business strategy, operation and management of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company. The Board believes that at the present stage, these arrangements have satisfied the aforesaid principle of separation of responsibilities. These arrangements also facilitate the formulation and implementation of the Company's strategies in a more effective manner so as to support the effective development of the Company's business.

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

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

The Company has established the Code for Dealing of Securities by Directors in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules. The Company 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 2009.

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

Compliance with the requirements under Section 404 of the SOX Act has been an area of emphasis for the Company. The relevant section of the Act requires the management of non-U.S. issuers with equity securities listed in the U.S. securities market to issue reports and representations as to internal control over financial reporting. The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. The Company's management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end.

As of 31 December 2008, the Company's management conducted an assessment on the effectiveness of the Company's internal controls over financial reporting and concluded that the Company's internal controls over financial reporting as of 31 December 2008 was effective. The independent auditor of the Company also expressed an unqualified opinion on the effectiveness of internal controls over financial reporting of the Company as of 31 December 2008 in their audit report. The management's assessment and the independent auditor's audit report are included in the Company's annual report on Form 20-F for the year ended 31 December 2008, as filed with the United States Securities Exchange Commission on 23 June 2009.

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

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

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

5. **Appendix 16 of the Listing Rules**

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2008 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2009, the Group had approximately 213,000 employees, 180 employees and 50 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 109,000 temporary employees in Mainland China. For the six months ended 30 June 2009, employee benefit expenses for the continuing operations were approximately RMB10.55 billion (for the six months ended 30 June 2008: RMB9.93 billion). The Group endeavors to maintain its employees' remuneration in line with market trend to remain such remuneration standard competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus policies based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, which are tailored in accordance with individual needs.

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

iPHONE

On 28 August 2009, the Company and Apple Inc. reached a three year agreement for the Company to sell iPhone in China. The initial launch is expected to be in the fourth calendar quarter of 2009.

FORWARD-LOOKING STATEMENTS

This interim report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to (i) the Company's plans and strategies, including those in connection with the Company's restructuring and integration after the merger between the Company and China Netcom Group Corporation (Hong Kong) Limited, the cooperation with Apple Inc. in respect of iPhone, mergers and acquisitions and capital expenditures; (ii) the Company's plans for network expansion, including those in connection with the build-out of third generation mobile telecommunications, or 3G, digital cellular business and network infrastructure; (iii) the Company's competitive position, including the Company's ability to upgrade and expand existing networks and increase network efficiency, to improve existing services and offer new services, to develop new technological applications and to leverage the Company's position as an integrated telecommunications operator and expand into new businesses and markets; (iv) the Company's future business condition, including the Company's future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, the Company's new and existing products and services; and (vi) future regulatory and other developments in the PRC telecommunications industry.

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

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

- changes in the regulatory regime and policies for the PRC telecommunications industry, including changes in the structure or functions of the primary industry regulator, the Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), or changes in the regulatory policies of the MIIT, the State-owned Assets Supervision and Administration Commission, or the SASAC, and other relevant government authorities of the PRC;
- results of the ongoing restructuring of the PRC telecommunications industry;
- changes in the PRC telecommunications industry resulting from the issuance of 3G licenses by the central government of the PRC;
- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;
- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services;
- competitive forces from more liberalized markets and the Company's ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;
- effects of competition on the demand and price of the Company's telecommunications services;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

- effects of the Company's restructuring and integration following the completion of the Company's merger with China Netcom Group Corporation (Hong Kong) Limited;
- effects of the Company's proposed adjustments in the Company's business strategies relating to the personal handyphone system, or PHS, business;
- effects of the Company's acquisition from the Company's parent companies of certain telecommunications business and assets, including the fixed-line business in 21 provinces in southern China, in January 2009;
- changes in the assumptions upon which the Company have prepared its projected financial information and capital expenditure plans;
- changes in the political, economic, legal and social conditions in the PRC, including the PRC Government's policies and initiatives with respect to economic development in light of the current global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry; and
- the potential continued slowdown of economic activities inside and outside the PRC.

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 28 August 2009