YOUNICOME

INTERIM REPORT 2014

China unicom 中国联通

CHINA UNICOM (HONG KONG) LIMITED
Incorporated in Hong Kong with limited liability

Stock Code: 0762

DIFFERENT UNICOM

INDUSTRY LEADING NETWORK CAPABILITIES

BETTER USER EXPERIENCE & CUSTOMER SATISFACTION

HIGHER QUALITY EMPLOYEES

Designed & Produced by HeterMedia Services Limited

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OUR OUTPERFORMANCE

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Chairman's Statement

DEAR SHAREHOLDERS,

First at all, on behalf of the Board of Directors of China Unicom, I would like to express my sincere gratitude to all shareholders and the different parts of the society for their support. In the first half of 2014, with a changing market environment and a slowing-down industry, the Company steadily implemented the strategy of "Leading Mobile Broadband and Innovating Operational Integration". As a result, the Company continued to expand its market share in service revenue, further optimised its business structure, and constantly improved its profitability.

OVERALL RESULTS

In the first half of 2014, the Company's operating revenue reached RMB149.57 billion, representing an increase of 3.6% over the same period last year, of which, service revenue was RMB126.97 billion, up by 9.0% year-on-year. Due to the replacement of business tax with value-added tax as well as the changes in market environment, the Company's revenue growth slowed down. Nevertheless, its service revenue growth still outperformed the industry average by 3.4 percentage points. The Company's business structure was further optimised, with mobile business and non-voice business accounting for 64.1% and 59.5% of total service revenue, respectively.

With the continuous revenue growth and improvement in business structure, the Company achieved steady improvement in profitability. The Company's EBITDA increased by 13.1% year-on-year to RMB47.69 billion, and its net profit increased by 25.8% year-on-year to RMB6.69 billion. The Company's overall financial status turned more solid, with its operating cash flow up by 1.1% year-on-year and its free cash flow reaching RMB20.15 billion, laying a more solid foundation for its sustainable growth in the future.

BUSINESS DEVELOPMENT

Mobile business maintained robust development with integrated operation in mobile broadband off to a good start. In the first half of 2014, the Company took a series of measures to respond to a complex competitive environment, namely: further enhancing its leading position of user experience in mobile broadband service, proactively carrying out the integrated 4G/3G operation, fully optimising its product portfolio and tariff plans to tap data value, improving customer retention system, and fully improving all-round user experiences in purchase, consumption, customer service and network. In the first half of 2014, the Company's mobile service revenue increased by 11.7% year-on-year to RMB81.34 billion, of which, mobile broadband[1] service revenue was up by 32.9% year-on-year to RMB54.38 billion, accounting for 66.9% of total mobile service revenue. In the first half of 2014, the Company's mobile subscribers increased by 14.02 million to 295 million, of which, mobile broadband subscribers were up by 40.8% year-on-year, accounting for 47.7% of total mobile subscribers. Mobile broadband ARPU was RMB68.7. The Company further enhanced its data volume operation and total data usage by the Company's handset users grew by 82.1% year-on-year to 199.8 billion MB. In addition, the Company proactively pushed forward the trial of mobile service resale, and provided flexible cooperative models as well as standardised business support across the network to mobile service resellers, resulting in a smooth start of mobile service resale.

Fixed-line business recorded steady growth, supported by continuous solid growth in fixed-line broadband service. In the first half of 2014, to ensure steady fixed-line business growth, the Company accelerated the upgrade and speed-up of its broadband network, enhanced its customer service capability, and pushed forward bundled mobile and fixed-line broadband services by promoting the integrated telecom service package "Smart Wo Home" to household customers. The Company's fixed-line service revenue increased by 4.5% year-on-year to RMB45.21 billion, of which 77.7% was from non-voice business; fixed-line broadband service revenue increased by 10.2% year-on-year to RMB24.89 billion, accounting for 55.1% of fixed-line service revenue; fixed-line broadband subscribers increased by 7.7% year-on-year to 67.42 million.

Chairman's Statement

Industry applications and innovative businesses achieved new breakthroughs. The Company continued its strategic deployment of industry applications in key sectors, accelerated the expansion into hot sectors, and achieved breakthroughs in such sectors as education informatisation, auto informatisation and smart city. In the first half of 2014, the key industry applications users reached 49.38 million. In addition, the Company persisted in openness and cooperation, proactively explored products and business models that are in line with the Internet development, and made new progresses in such areas as the Internet of Things, cloud computing and mobile payment.

NETWORK CAPABILITIES

In the first half of 2014, the Company continued the construction of its 3G network to enhance broad and in-depth coverage, and rapidly carried out 4G-related network deployment so as to build the user experience-oriented 4G/3G-integrated high-quality mobile broadband network. The broad and in-depth coverage of its mobile broadband network was further enhanced, and the network quality was further improved through the enhanced end-to-end network optimisation. In the first half of 2014, the Company expanded its 4G and 3G base stations by 84 thousand to 491 thousand. The maximum downlink speed reaches 150 Mbps for its LTE network, 42 Mbps for its DC-HSPA+ network and 21 Mbps for the whole HSPA+ network. In addition, the Company accelerated the construction of fiber optic network, and its broadband access ports reached 124.896 million, of which 73.8% are FTTH/B. The Company further expanded the coverage of packet transport network, and the load-carrying capability for high-speed data services was further enhanced.

CHANG XIAOBING
Chairman & CEO

Chairman's Statement

MANAGEMENT REFORM

In the first half of 2014, leveraging on the replacement of business tax with value-added tax, the Company further deepened management reform in key areas so as to follow the new trends in the mobile Internet era and to improve cost effectiveness, development quality and corporate vitality.

The Company continued the transformation of its sales and marketing model. By focusing on profitable development and existing customers, the Company optimised its product portfolio, terminal offering and distribution channels, and further improved the quality of its subscribers and business. Following the Internet way of thinking, the Company explored the integrated online and offline sales and marketing practice. The Company accelerated the development of "woego" B2B Platform for small and medium size distributors, consolidated the resources along the industry value chain, provided effective, transparent and fair end-to-end operational support through total solution on terminals, products and distribution channels, so as to build new differentiated service advantages.

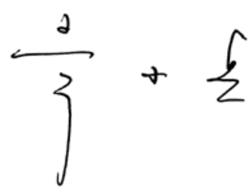
The Company put great effort to promote centralised operation with a focus on market, customers and local business units. Leveraging on the centralised business supporting system (cBSS) and starting with 4G business, the Company created a responsive and centralised business decision process and made the first step for the direct operational management toward local business units.

The Company strengthened investment project progression planning, proactively established a fair, transparent and dynamic resource allocation mechanism that leans to local business units, built a comprehensive evaluation system for municipal subsidiaries, implemented market-oriented management for sales outlets, and optimised evaluation and incentive measures, so as to fully stimulate the Company's organic vitality.

OUTLOOK

The information and communications technology is rapidly and fully penetrating into every part of our society at an unprecedented breadth and depth. As the key driving force of China's economic transformation, the information industry still enjoys important strategic opportunities with strong market demand. China Unicom will constantly consolidate and create differentiated service advantages, proactively adapt to market changes, and firmly grasp opportunities to ensure the Company's continuous and rapid development. Centering on market and customer needs, the Company will put greater effort in innovation, transform its development model, and accelerate the development of its key businesses such as mobile broadband and fixed-line broadband, so as to maintain its industry-leading growth rate and achieve continuous improvement in market share, profitability and overall strength. The Company will focus on its strategic development direction and carry out corporate reform pragmatically. The Company will accelerate the reform in its mobile Internet-oriented operational system and other key areas such as sales and marketing, investment and construction, recruitment and remuneration as well as resource allocation, and proactively explore the opportunities to transform and innovate in areas such as mixed ownership, Internet finance and mobile service resale, so as to constantly enhance its corporate vitality.

The Company is confident about its future development, and will strive to create more value for its shareholders through its persistent efforts.



Chang Xiaobing
Chairman and Chief Executive Officer
Hong Kong, 7 August 2014

Note 1: Mobile broadband business includes both 3G and 4G businesses.

Financial Overview

REVENUE

In the first half of 2014, total revenue was RMB149.57 billion, up by 3.6% as compared to the same period of last year. Out of total revenue, service revenue was RMB126.97 billion, up by 9.0% as compared to the same period of last year.

In the first half of 2014, service revenue from the mobile business was RMB81.34 billion, up by 11.7% as compared to the same period of last year. Out of service revenue from the mobile business, service revenue from mobile broadband business[1] was RMB54.38 billion and, as a percentage of service revenue from the mobile business, there was an increase from 56.2% in the first half of 2013 to 66.9% in the first half of 2014.

In the first half of 2014, service revenue from the fixed-line business was RMB45.21 billion, up by 4.5% as compared to the same period of last year. Out of service revenue from the fixed-line business, service revenue from the fixed-line broadband business was RMB24.89 billion, up by 10.2% as compared to the same period of last year and, as a percentage of service revenue from the fixed-line business, there was an increase from 52.2% in the first half of 2013 to 55.1% in the first half of 2014.

COSTS AND EXPENSES[2]

In the first half of 2014, total costs and expenses were RMB140.73 billion, up by 2.6% as compared to the same period of last year and 1.0 percentage points lower than the growth in total revenue in the first half of 2014.

The Company continued to strengthen its network capabilities, depreciation and amortisation charge were RMB36.88 billion in the first half of 2014, up by 8.8% as compared to the same period of last year. At the same time, the Company adequately increased in network operation investment, network, operation and support expenses were RMB18.04 billion in the first half of 2014, up by 12.8% as compared to the same period of last year.

The Company actively responded to market competition, accelerated the user development and market expansion. As a result, selling and marketing expenses were RMB23.82 billion in the first half of 2014, up by 16.9% as compared to the same period of last year. Terminal subsidy cost of mobile broadband business was RMB3.33 billion in the first half of 2014.

Under the influence of the adjustments to interconnection settlement policy, interconnection charges were RMB7.57 billion in the first half of 2014, down by 23.7% as compared to the same period of last year.

The Company implemented pension plan and strengthened staff motivation, and as a result, employee benefit expenses were RMB16.97 billion in the first half of 2014, up by 13.6% as compared to the same period of last year.

EARNINGS

In the first half of 2014, profit before income tax was RMB8.84 billion and profit for the period[3] was RMB6.69 billion, up by 25.8% as compared to the same period of last year. Basic earnings per share was RMB0.281 in the first half of 2014. EBITDA[4] was RMB47.69 billion in the first half of 2014, up by 13.1% as compared to the same period of last year. EBIDTA as a percentage of the service revenue was 37.6% in the first half of 2014.

OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2014, the Company's net cash flow from operating activities was RMB41.73 billion. Capital expenditure was RMB21.58 billion in the first half of 2014.

Financial Overview

BALANCE SHEET

Liabilities-to-assets ratio changed from 58.6% as at 31 December 2013 to 57.0% as at 30 June 2014. Debt-to-capitalisation ratio changed from 39.8% as at 31 December 2013 to 38.1% as at 30 June 2014.

FURTHER INFORMATION

The pilot programme regarding the replacement of business tax with value-added tax (the "VAT Reform") has applied to the telecommunications industry in PRC since 1 June 2014. Due to the full implementation of the VAT Reform and the transformation of the sales and marketing model of the Company in response thereto as well as the more complicated competition landscape, there will be pressure on the Company's revenue growth and profitability growth. The Company will proactively respond to the change in the environment, carry out the holistic strategy of "Leading Mobile Broadband and Innovating Operational Integration" as well as consolidating and utlising the Company's distinctive competitive edge in technology, network, business and operation accumulated over the years, so as to ensure steady growth in service revenue and profit throughout the year.

Note 1: *Mobile broadband business included 3G business and 4G business.*

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

Note 3: *In the first half of 2014 net profit has been achieved under the following circumstances: a) expenses of RMB1,151 million arising from Personal Handyphones System asset disconnection in the first half of 2014; b) due to the depreciation of RMB, an exchange loss of RMB358 million incurred in the first half of 2014; an exchange gain of RMB725 million incurred in the first half of 2013; c) a corporate pension contribution of RMB443 million incurred in the first half of 2014.*

Note 4: *EBITDA represents profit for the period before finance costs, interest income, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like our Group.*

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2014

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

	Note	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	**415,929**	431,625
Lease prepayments		**7,996**	8,038
Goodwill		**2,771**	2,771
Interest in associate		**33**	–
Interest in joint venture		**20**	–
Deferred income tax assets	6	**8,259**	6,734
Financial assets at fair value through other comprehensive income	7	**6,870**	6,497
Other assets	8	**21,333**	21,296
		463,211	476,961
Current assets			
Inventories and consumables	9	**4,410**	5,536
Accounts receivable	10	**16,527**	14,842
Prepayments and other current assets	11	**11,018**	9,664
Amounts due from related parties	32.1	**9**	11
Amounts due from domestic carriers		**2,116**	597
Short-term bank deposits		**54**	54
Cash and cash equivalents		**19,284**	21,506
		53,418	52,210
Total assets		**516,629**	529,171
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital		**178,096**	2,328
Share premium		**–**	175,204
Capital redemption reserve		**–**	79
Share capital and other statutory capital reserve	12	**178,096**	177,611
Other reserves		**(19,439)**	(19,529)
Retained profits			
– Proposed 2013 final dividend	29	**–**	3,805
– Others		**63,700**	57,012
Total equity		**222,357**	218,899

Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2014

(All amounts in RMB millions)

	Note	**30 June 2014**	31 December 2013
LIABILITIES			
Non-current liabilities			
Long-term bank loans	13	**461**	481
Promissory notes	14	**8,989**	–
Convertible bonds	15	**11,165**	11,002
Corporate bonds	16	**2,000**	2,000
Deferred income tax liabilities	6	**27**	26
Deferred revenue		**1,325**	1,269
Other obligations		**182**	255
		24,149	15,033
Current liabilities			
Short-term bank loans	17	**103,268**	94,422
Commercial papers	18	**10,000**	35,000
Current portion of long-term bank loans	13	**47**	48
Accounts payable and accrued liabilities	19	**95,138**	102,212
Taxes payable		**4,772**	2,634
Amounts due to ultimate holding company	32.1	**759**	1,634
Amounts due to related parties	32.1	**1,977**	4,176
Amounts due to domestic carriers		**1,812**	1,504
Dividend payable	29	**773**	644
Current portion of deferred revenue		**406**	452
Current portion of other obligations		**2,669**	2,672
Advances from customers		**48,502**	49,841
		270,123	295,239
Total liabilities		**294,272**	310,272
Total equity and liabilities		**516,629**	529,171
Net current liabilities		**(216,705)**	(243,029)
Total assets less current liabilities		**246,506**	233,932

The notes on pages 13 to 41 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Income

For the six months ended 30 June 2014

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

		Six months ended 30 June	
	Note	**2014**	2013
Revenue	20	**149,569**	144,307
Interconnection charges		**(7,565)**	(9,917)
Depreciation and amortisation		**(36,882)**	(33,906)
Network, operation and support expenses	21	**(18,035)**	(15,993)
Employee benefit expenses	22	**(16,969)**	(14,934)
Costs of telecommunications products sold	23	**(25,682)**	(31,813)
Other operating expenses	24	**(33,629)**	(29,473)
Finance costs	25	**(2,709)**	(1,475)
Interest income		**135**	81
Other income – net	26	**604**	215
Profit before income tax		**8,837**	7,092
Income tax expenses	6	**(2,148)**	(1,775)
Profit for the period		**6,689**	5,317
Profit attributable to:			
Equity shareholders of the Company		**6,689**	5,317
Earnings per share for profit attributable to equity shareholders of the Company during the period:			
Basic earnings per share (RMB)	30	**0.28**	0.23
Diluted earnings per share (RMB)	30	**0.27**	0.22

The notes on pages 13 to 41 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2014

(All amounts in RMB millions)

	Six months ended 30 June	
	2014	2013
Profit for the period	**6,689**	5,317
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets through other comprehensive income	**349**	(370)
Tax effect on changes in fair value of financial assets through other comprehensive income	**(82)**	90
Changes in fair value of financial assets through other comprehensive income, net of tax	**267**	(280)
Remeasurement of net defined benefit liability, net of tax	**(3)**	–
	264	(280)
Item that may be reclassified subsequently to statement of income:		
Currency translation differences	**4**	(14)
Other comprehensive income for the period, net of tax	**268**	(294)
Total comprehensive income for the period	**6,957**	5,023
Total comprehensive income attributable to:		
Equity shareholders of the Company	**6,957**	5,023

The notes on pages 13 to 41 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2014

(All amounts in RMB millions)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total equity
Balance at 1 January 2013	2,311	173,473	79	651	(4,453)	25,752	572	(43,110)	54,230	209,505
Total comprehensive income for the period	–	–	–	–	(280)	–	–	(14)	5,317	5,023
Equity-settled share option schemes:										
–Value of employee services	–	–	–	50	–	–	–	–	–	50
–Issuance of shares upon exercise of options	6	570	–	(216)	–	–	–	–	–	360
–Transfer between reserves upon lapsing of options	–	–	–	(3)	–	–	–	–	3	–
Dividends relating to 2012 (Note 29)	–	–	–	–	–	–	–	–	(2,836)	(2,836)
Balance at 30 June 2013	2,317	174,043	79	482	(4,733)	25,752	572	(43,124)	56,714	212,102
Balance at 1 January 2014	**2,328**	**175,204**	**79**	**338**	**(3,763)**	**26,740**	**572**	**(43,416)**	**60,817**	**218,899**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**267**	**–**	**–**	**1**	**6,689**	**6,957**
Dividends relating to 2013 (Note 29)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,806)**	**(3,806)**
Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance:										
–Issuance of shares upon exercise of options	**–**	**19**	**–**	**(4)**	**–**	**–**	**–**	**(3)**	**–**	**12**
Transition to no-par value regime on 3 March 2014 (Note 12)	**175,302**	**(175,223)**	**(79)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:										
–Issuance of shares upon exercise of options	**466**	**–**	**–**	**(97)**	**–**	**–**	**–**	**(74)**	**–**	**295**
Balance at 30 June 2014	**178,096**	**–**	**–**	**237**	**(3,496)**	**26,740**	**572**	**(43,492)**	**63,700**	**222,357**

The notes on pages 13 to 41 are an integral part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2014

(All amounts in RMB millions)

	Note	Six months ended 30 June	
		2014	2013
Cash flows from operating activities			
Cash generated from operations		**44,428**	42,659
Income tax paid		**(2,699)**	(1,386)
Net cash inflow from operating activities		**41,729**	41,273
Cash flows from investing activities			
Purchase of property, plant and equipment		**(31,192)**	(34,045)
Other cash flows arising from investing activities		**(1,475)**	(2,296)
Net cash outflow from investing activities		**(32,667)**	(36,341)
Cash flows from financing activities			
Dividends paid to equity shareholders of the Company	29	**(3,677)**	(2,713)
Other cash flows arising from financing activities		**(7,623)**	(7,024)
Net cash outflow from financing activities		**(11,300)**	(9,737)
Net decrease in cash and cash equivalents		**(2,238)**	(4,805)
Cash and cash equivalents, beginning of period		**21,506**	18,250
Effect of changes in foreign exchange rate		**16**	(22)
Cash and cash equivalents, end of period		**19,284**	13,423
Analysis of the balances of cash and cash equivalents:			
Cash balances		**4**	6
Bank balances		**19,280**	13,417
		19,284	13,423

The notes on pages 13 to 41 are an integral part of this unaudited condensed consolidated interim financial information.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice, TD-LTE cellular voice, LTE FDD cellular voice and related value-added services are referred to as the "mobile business", the services aforementioned other than the mobile business are hereinafter collectively referred to as the "fixed-line business". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of the Company's registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

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

The substantial shareholders of the Company are China Unicom (BVI) Limited ("Unicom BVI") and China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI"). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited ("A Share Company", a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in A Share Company is owned by China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"). Unicom Group BVI is a wholly-owned subsidiary of Unicom Group. As a result, the directors of the Company consider Unicom Group to be the ultimate holding company of the Company.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standard ("IAS") 34 "Interim financial reporting" issued by the International Accounting Standards Board ("IASB"). IAS 34 is consistent with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accordingly this unaudited condensed consolidated interim financial information is also prepared in accordance with HKAS 34.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

The financial information for the year ended 31 December 2013 is extracted from the audited financial statements as set out in the Company's 2013 Annual Report.

The unaudited condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's Audit Committee. It has also been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410,"Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013. The Group's policies on financial risk management, including management of market risk, credit risk and liquidity risk, as well as capital risk management, were set out in the financial statements included in the Company's 2013 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2014.

(a) Going Concern Assumption

As at 30 June 2014, current liabilities of the Group exceeded current assets by approximately RMB216.7 billion (31 December 2013: approximately RMB243.0 billion). Given the current global economic conditions and the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB313.9 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB186.5 billion was unutilised as at 30 June 2014; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group believes it has the ability to raise funds from the short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2014 have been prepared on a going concern basis.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2013.

The following amendments to standards and one new Interpretation are mandatory for the first time for the financial year beginning 1 January 2014 and are applicable to the Group:

Amendments to IAS/HKAS 32, "Offsetting financial assets and financial liabilities"

The amendments to IAS/HKAS 32 clarify the offsetting criteria in IAS/HKAS 32. The amendments do not have an impact on the Group's unaudited condensed consolidated interim financial information as they are consistent with the policies already adopted by the Group.

Amendments to IAS/HKAS 36, "Recoverable amount disclosures for non-financial assets"

The amendments to IAS/HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The adoption of the amendments to IAS/HKAS 36 did not have any material impact on the Group's unaudited condensed consolidated interim financial information.

IFRIC/HK(IFRIC) 21, "Levies"

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's unaudited condensed consolidated interim financial information as the guidance is consistent with the Group's existing accounting policies.

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are effective beginning after 1 July 2014 and have not been early adopted by the Group except IFRS/HKFRS 9 "Financial instruments". Management is assessing the impact of such new standards, amendments to standards and interpretations and will adopt the relevant standards, amendments to standards and interpretations in the subsequent periods as required.

4. SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the Chief Operating Decision Maker (the "CODM"). Operating segments are identified on the basis of internal reports that the CODM reviews regularly in allocating resources to segments and in assessing their performances.

The CODM make resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group primarily operates in Mainland China and accordingly, no geographic information is presented. No single external customer accounted for 10 percent or more of the Group's revenue in all periods presented.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2014 and 2013 are as follows:

	Six months ended 30 June 2014					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	Construction-in-progress ("CIP")	Total
Cost:						
Beginning of period	64,915	848,445	18,669	3,930	59,096	995,055
Additions	47	18	28	169	21,473	21,735
Transfer from CIP	1,091	16,843	284	214	(18,432)	–
Transfer to other assets	–	–	–	–	(2,013)	(2,013)
Disposals	(11)	(5,659)	(203)	(229)	(2)	(6,104)
End of period	66,042	859,647	18,778	4,084	60,122	1,008,673
Accumulated depreciation and impairment:						
Beginning of period	(24,241)	(524,392)	(12,704)	(1,969)	(124)	(563,430)
Charge for the period	(1,574)	(32,345)	(772)	(390)	–	(35,081)
Disposals	7	5,338	197	223	2	5,767
End of period	(25,808)	(551,399)	(13,279)	(2,136)	(122)	(592,744)
Net book value:						
End of period	40,234	308,248	5,499	1,948	60,000	415,929
Beginning of period	40,674	324,053	5,965	1,961	58,972	431,625

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Six months ended 30 June 2013					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	60,774	770,422	45,236	3,296	61,915	941,643
Reclassification	–	27,819	(27,819)	–	–	–
Additions	100	136	42	246	20,392	20,916
Transfer from CIP	1,479	23,541	323	364	(25,707)	–
Disposals	(169)	(3,906)	(151)	(120)	–	(4,346)
End of period	62,184	818,012	17,631	3,786	56,600	958,213
Accumulated depreciation and impairment:						
Beginning of period	(21,318)	(451,596)	(36,063)	(1,653)	(16)	(510,646)
Reclassification	–	(24,651)	24,651	–	–	–
Charge for the period	(1,468)	(29,884)	(745)	(362)	16	(32,443)
Disposals	69	3,566	147	115	–	3,897
End of period	(22,717)	(502,565)	(12,010)	(1,900)	–	(539,192)
Net book value:						
End of period	39,467	315,447	5,621	1,886	56,600	419,021
Beginning of period	39,456	318,826	9,173	1,643	61,899	430,997

For the six months ended 30 June 2014, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB103 million (for the six months ended 30 June 2013: loss of approximately RMB44 million).

For the six months ended 30 June 2013, as a result of a review on the assets categorisation, certain equipment was reclassified from "Office furniture, fixtures, motor vehicles and other equipment" to "Telecommunications equipment". This reclassification does not cause any changes in the estimated useful lives of those assets.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2013: 16.5%) on the estimated assessable profits for the six months ended 30 June 2014. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2014 at the rates of taxation prevailing in the countries in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2013: 25%). Taxation for certain subsidiaries in PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2013: 15%).

	Six months ended 30 June	
	2014	2013
Provision for income tax on the estimated taxable profits for the period		
– Hong Kong	**19**	15
– Outside Hong Kong	**3,754**	3,319
Adjustments to prior years' current tax outside Hong Kong	**(19)**	–
	3,754	3,334
Deferred taxation	**(1,606)**	(1,559)
Income tax expenses	**2,148**	1,775

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

	Six months ended 30 June	
	2014	2013
Applicable PRC statutory tax rate	**25.0%**	25.0%
Non-deductible expenses	**0.7%**	1.3%
Adjustments to prior years' current tax	**(0.2%)**	–
Non-taxable income	**(0.1%)**	(0.1%)
Impact of different tax rate	**(0.4%)**	(0.3%)
Others	**(0.7%)**	(0.9%)
Effective tax rate	**24.3%**	25.0%

(All amounts in RMB millions unless otherwise stated)

6. TAXATION (CONTINUED)

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

	Six months ended 30 June	
	2014	2013
Net deferred tax assets after offsetting:		
Beginning of period	**6,734**	6,534
Deferred tax credited to the statement of income	**1,607**	1,558
Deferred tax (charged)/credited to other comprehensive income	**(82)**	90
End of period	**8,259**	8,182
Net deferred tax liabilities after offsetting:		
Beginning of period	**(26)**	(20)
Deferred tax (charged)/credited to the statement of income	**(1)**	1
End of period	**(27)**	(19)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2014	31 December 2013
Listed in the PRC	**98**	97
Listed outside the PRC	**6,748**	6,400
Unlisted	**24**	–
	6,870	6,497

For the six months ended 30 June 2014, increase in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB349 million (for the six months ended 30 June 2013: decrease of approximately RMB370 million). The increase, net of tax impact, of approximately RMB267 million (for the six months ended 30 June 2013: decrease, net of tax impact, of approximately RMB280 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

8. OTHER ASSETS

	Note	30 June 2014	31 December 2013
Purchased software		**7,826**	8,121
Prepaid rental for premises, leased lines and electricity cables		**6,676**	6,955
Installation costs		**720**	712
Direct incremental costs for activating broadband subscribers		**2,964**	1,894
Others	(i)	**3,147**	3,614
		21,333	21,296

(i) The amount includes the receivables from the sales of mobile handset that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year are included in prepayments and other current assets (see Note 11(i)).

9. INVENTORIES AND CONSUMABLES

	30 June 2014	31 December 2013
Handsets and other customer end products	**3,672**	4,548
Telephone cards	**257**	386
Consumables	**361**	514
Others	**120**	88
	4,410	5,536

10. ACCOUNTS RECEIVABLE

	30 June 2014	31 December 2013
Accounts receivable	**22,368**	19,133
Less: Allowance for doubtful debts	**(5,841)**	(4,291)
	16,527	14,842

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

10. ACCOUNTS RECEIVABLE (CONTINUED)

The aging analysis of accounts receivable is as follows:

	30 June 2014	31 December 2013
Current and within one month	**11,660**	10,633
More than one month to three months	**2,737**	1,955
More than three months to one year	**4,128**	3,992
More than one year	**3,843**	2,553
	22,368	19,133

The normal credit period granted by the Group to individual subscribers is 30 days from the date of billing unless they meet certain specified credit assessment criteria. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year.

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

11. PREPAYMENTS AND OTHER CURRENT ASSETS

The nature and aging analysis of prepayments and other current assets, net of allowance for doubtful debts, are as follows:

	Note	**30 June 2014**	31 December 2013
Receivable for the sales of mobile handsets	(i)	**3,521**	3,462
Prepaid rental		**2,635**	2,329
Deposits and prepayments		**3,007**	2,459
Advances to employees		**234**	246
Others		**1,621**	1,168
		11,018	9,664

(i) The Group offers preferential packages to the customers which include the bundle sale of mobile handset and provision of service. The total contract consideration of such preferential packages is allocated to service revenue and sales of handset based on their relative fair values. For those contractual preferential packages with guarantees by third parties, the revenue relating to the sale of the handset is recognised when the titles are passed to the customers and are calculated under the aforementioned relative fair value method, which results in the corresponding receivable for the sales of mobile handset. The receivable for the sales of mobile handset is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered over one year amounted to RMB1,991 million (31 December 2013: RMB2,496 million), and are included in long term other assets (see Note 8(i)).

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

11. PREPAYMENTS AND OTHER CURRENT ASSETS (CONTINUED)

	30 June 2014	31 December 2013
Within one year	**10,542**	9,310
More than one year	**476**	354
	11,018	9,664

12. CAPITAL AND RESERVES

(a) Share capital

As at 31 December 2013, 30,000,000,000 ordinary shares, with par value of HKD0.10 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

The movement of the Company's ordinary shares is set out below:

Issued and fully paid:	**Number of shares millions**	**Share capital**	**Share premium**	**Capital redemption reserve**	**Total**
At 1 January 2013	23,565	2,311	173,473	79	175,863
Issuance of shares upon exercise of options (Note 28)	217	17	1,731	–	1,748
At 31 December 2013	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 28)	**2**	**–**	**19**	**–**	**19**
Transition to no-par value regime on 3 March 2014	**–**	**175,302**	**(175,223)**	**(79)**	**–**
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 28)	**57**	**466**	**–**	**–**	**466**
At 30 June 2014	**23,841**	**178,096**	**–**	**–**	**178,096**

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

12. CAPITAL AND RESERVES (CONTINUED)

(b) Share premium and capital redemption reserve

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32).

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014, of RMB175,223 million and RMB79 million respectively, have become part of the Company's share capital. The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

13. LONG-TERM BANK LOANS

	Interest rates and final maturity	30 June 2014	31 December 2013
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00% (31 December 2013: Nil to 5.00%) per annum with maturity through 2039 (31 December 2013: maturity through 2039)	343	351
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2013: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2013: maturity through 2034)	165	178
Sub-total		508	529
Less: Current portion		(47)	(48)
		461	481

As at 30 June 2014, long-term bank loans of approximately RMB94 million (31 December 2013: approximately RMB97 million) were guaranteed by third parties.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

13. LONG-TERM BANK LOANS (CONTINUED)

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

	30 June 2014	31 December 2013
Balances due:		
– not later than one year	**47**	48
– later than one year and not later than two years	**46**	46
– later than two years and not later than five years	**158**	139
– later than five years	**257**	296
	508	529
Less: Portion classified as current liabilities	**(47)**	(48)
	461	481

14. PROMISSORY NOTES

On 16 April 2014, China United Network Communications Corporation Limited ("CUCL"), a wholly-owned subsidiary of the Company, issued tranche one of 2014 promissory notes in the amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interests at 5.35% per annum.

On 3 April 2014, the Company established a Medium Term Note Programme (the "MTN Programme"), under which the Company could offer and issue notes of aggregate principal amount of up to RMB10 billion. Notes under the MTN Programme will be denominated in RMB and are to be issued to professional investors outside the United States. On 16 April 2014, the Company completed the issue of Drawdown Notes in an aggregate nominal amount of RMB4 billion pursuant to the MTN Programme, with a maturity of 3 years and at an interest rate of 4.00% per annum.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

15. CONVERTIBLE BONDS

On 18 October 2010, Billion Express Investments Limited ("Billion Express"), a wholly-owned subsidiary of the Company, issued 0.75% guaranteed convertible bonds in an aggregate principal amount of USD1,838,800,000 (at the fixed exchange rate of USD1 equivalent to HKD7.7576) which are due in October 2015 at a redemption price of 100% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of the Company at an initial conversion price of HKD15.85 per share. The conversion price is subject to certain anti-dilution and change in control adjustments set out in the Trust Deed dated 18 October 2010. Adjustments have been made to the conversion price from HKD15.85 to HKD15.05 as a result of the dividends paid by the Company since the convertible bonds were issued. The bondholders may exercise conversion rights at any time on or after 28 November 2010 up to the close of business on 8 October 2015 or, if such convertible bonds shall have been called for redemption by the Company before 18 October 2015, then up to the close of business on a date no later than seven days prior to the date fixed for redemption thereof. Billion Express, would at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013, the date fixed for redemption, at their principal amount together with interest accrued and unpaid (the "Put Option"). The last day on which the bondholders may give notice to exercise the Put Option was 18 September 2013. As no bondholder gave notice to exercise the Put Option to require the redemption of their convertible bonds by 18 September 2013, such right expired on that date. In addition, on or at any time after 18 October 2013 and prior to 18 October 2015, Billion Express may redeem all and not some only of the convertible bonds for the time being outstanding at their principal amount together with interest accrued and unpaid to the date fixed for redemption.

During the six months ended 30 June 2014 and 2013, there was no conversion of the convertible bonds into shares in the Company by the bondholders and no redemption of the convertible bonds made by Billion Express.

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

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

	Six months ended 30 June	
	2014	2013
Movement of liability component:		
Beginning of period	**11,002**	11,215
Less: interest paid	**(42)**	(43)
Add: effect of exchange loss/(gain) on liability component	**101**	(191)
Add: imputed finance cost	**104**	105
End of period	**11,165**	11,086

The liability component of the convertible bonds at 30 June 2014 amounted to USD1,815 million (equivalent to RMB11,165 million) (31 December 2013: amounted to USD1,804 million, equivalent to RMB11,002 million) and was calculated using cash flows discounted at a rate based on the borrowing rate of 1.90% per annum taking into the effect of direct issue costs.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

16. CORPORATE BONDS

On 8 June 2007, the Group issued RMB2 billion 10-year corporate bonds, bearing interest at 4.50% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

17. SHORT-TERM BANK LOANS

	Interest rates and final maturity	30 June 2014	31 December 2013
RMB denominated bank loans	Fixed interest rates ranging from 3.62% to 5.60% (31 December 2013: 3.62% to 5.04%) per annum with maturity through 2014 (31 December 2013: maturity through 2014)	**53,975**	56,173
HKD denominated bank loans	Floating interest rates of HIBOR plus interest margin from 0.70% to 2.10% (31 December 2013: 0.85% to 1.20%) per annum with maturity through 2015 (31 December 2013: maturity through 2014)	**49,293**	38,249
		103,268	94,422

18. COMMERCIAL PAPERS

On 17 September 2013, CUCL issued tranche two of 2013 super and short-term commercial papers in an amount of RMB15 billion, with a maturity period of 180 days from the date of issue and which carried interest at 4.63% per annum. The super and short-term commercial papers were fully repaid in March 2014.

On 12 October 2013, CUCL issued tranche three of 2013 super and short-term commercial papers in an amount of RMB10 billion, with a maturity period of 180 days from the date of issue and which carried interest at 4.68% per annum. The super and short-term commercial papers were fully repaid in April 2014.

On 21 October 2013, CUCL issued tranche four of 2013 super and short-term commercial papers in an amount of RMB10 billion, with a maturity period of 180 days from the date of issue and which carried interest at 4.68% per annum. The super and short-term commercial papers were fully repaid in April 2014.

On 24 March 2014, CUCL issued tranche one of 2014 super and short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 5.10% per annum.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2014	31 December 2013
Payables to contractors and equipment suppliers	60,973	72,900
Payables to telecommunications products suppliers	4,886	5,333
Customer/contractor deposits	4,032	4,135
Repair and maintenance expense payables	3,897	3,251
Salary and welfare payables	5,024	2,548
Interest payables	348	568
Amounts due to service providers/content providers	1,097	1,459
Accrued expenses	11,569	9,041
Others	3,312	2,977
	95,138	102,212

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

	30 June 2014	31 December 2013
Less than six months	68,446	82,279
Six months to one year	16,620	8,239
More than one year	10,072	11,694
	95,138	102,212

20. REVENUE

Before 1 June 2014, service revenue and revenue from bundle sale of mobile handset were subject to business tax of 3%-5% while standalone sales of telecommunications products was subject to value-added tax ("VAT") of 17%. Relevant business tax was set off against revenue.

The Ministry of Finance and the State Administration of Taxation of the People's Republic of China ("Tax Bureau") jointly issued a notice (the "Notice") dated 29 April 2014 pursuant to which the pilot programme regarding the replacement of business tax with VAT could be implemented nationwide for the telecommunications industry (the "VAT Reform") from 1 June 2014.

The Notice sets out the specific scope of taxable telecommunications services and tax rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 11%; the VAT rate for value-added telecommunications services is 6% and the VAT rate for sales of telecommunications products remains at 17%. Basic telecommunications services include business activities for the provision of voice services, as well as business activities in relation to rental or sale of bandwidth, wavelength and other network elements etc; value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, electronic data and information transmission and application services, Internet access service etc. VAT is excluded from the revenue.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

20. REVENUE (CONTINUED)

The major components of revenue are as follows:

	Six months ended 30 June	
	2014	2013
Mobile business		
– Usage and monthly fees	**34,975**	33,940
– Value-added services revenue	**39,353**	31,900
– Interconnection fees	**6,409**	6,712
– Other mobile business service revenue	**606**	301
Total service revenue from mobile business	**81,343**	72,853
Fixed-line business		
– Usage and monthly fees	**7,919**	9,085
– Broadband, data and other Internet-related services revenue	**26,066**	23,762
– Interconnection fees	**1,992**	2,048
– Value-added services revenue	**1,988**	2,054
– Leased line income	**4,686**	4,150
– Information communication technology services revenue	**2,055**	1,636
– Other fixed-line business service revenue	**501**	518
Total service revenue from fixed-line business	**45,207**	43,253
Other service revenue	**423**	369
Total service revenue	**126,973**	116,475
Sales of telecommunications products	**22,596**	27,832
	149,569	144,307

21. NETWORK, OPERATION AND SUPPORT EXPENSES

	Six months ended 30 June	
	2014	2013
Repairs and maintenance	**6,055**	5,429
Power and water charges	**6,349**	5,786
Operating lease charges for network, premises, equipment and facilities	**4,912**	4,175
Others	**719**	603
	18,035	15,993

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

22. EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2014	2013
Salaries and wages	**13,416**	11,576
Contributions to defined contribution pension schemes	**1,787**	1,629
Contributions to medical insurance	**739**	660
Contributions to housing fund	**1,017**	922
Other housing benefits	**10**	97
Share-based compensation	**–**	50
	16,969	14,934

23. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2014	2013
Handsets and other customer end products	**25,290**	31,530
Telephone cards	**337**	259
Others	**55**	24
	25,682	31,813

24. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2014	2013
Impairment losses for doubtful debts and write-down of inventories	**2,088**	2,077
Cost in relation to information communications technology services	**1,846**	1,439
Commission expenses	**15,728**	13,438
Customer acquisition cost and advertising and promotion expenses	**3,481**	3,270
Amortised customer installation cost	**2,147**	1,597
Customer retention cost	**2,468**	2,080
Property management fee	**1,122**	1,074
Office and administrative expenses	**904**	1,320
Transportation expense	**951**	963
Miscellaneous taxes and fees	**421**	404
Technical support expenses	**616**	418
Repairs and maintenance expenses	**419**	329
Others	**1,438**	1,064
	33,629	29,473

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

25. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
Finance costs:		
– Interest on bank loans repayable within 5 years	**1,884**	1,168
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	**645**	1,136
– Interest on convertible bonds repayable within 5 years	**104**	105
– Interest on related party loans repayable within 5 years	**31**	5
– Interest on bank loans repayable over 5 years	**2**	2
– Less: Amounts capitalised in CIP	**(454)**	(438)
Total interest expense	**2,212**	1,978
– Exchange loss/(gain), net	**358**	(725)
– Others	**139**	222
	2,709	1,475

26. OTHER INCOME – NET

	Six months ended 30 June	
	2014	2013
Dividend income from financial assets at fair value through other comprehensive income	**220**	–
Others	**384**	215
	604	215

27. MUTUAL INVESTMENT OF THE COMPANY AND TELEFÓNICA S.A. ("TELEFÓNICA") IN EACH OTHER

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

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

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

As at 30 June 2014, the related financial assets at fair value through other comprehensive income amounted to approximately RMB6,748 million (31 December 2013: approximately RMB6,400 million). For the six months ended 30 June 2014, the increase in fair value of the financial assets through other comprehensive income was approximately RMB348 million (for the six months ended 30 June 2013: decrease of approximately RMB349 million). The increase, net of tax impact, of approximately RMB260 million (for the six months ended 30 June 2013: decrease, net of tax, of approximately RMB261 million) has been recorded in the unaudited condensed consolidated interim statement of comprehensive income.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

28. EQUITY-SETTLED SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "Share Option Scheme") on 1 June 2000 for the granting of share options to qualified employees, with terms amended in May 2002, May 2007 and May 2009, respectively.

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

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

	Six months ended 30 June			
	2014		2013	
	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	**6.61**	**174,498,077**	6.49	391,331,158
Lapsed	**–**	**–**	4.30	(110,000)
Exercised	**6.55**	**(58,858,435)**	6.01	(75,055,146)
Balance, end of period	**6.64**	**115,639,642**	6.61	316,166,012

Exercise of share options during the six months ended 30 June 2014 resulted in 58,858,435 shares being issued (six months ended 30 June 2013: 75,055,146 shares), with exercise proceeds of approximately RMB307 million (six months ended 30 June 2013: approximately RMB360 million).

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

Details of share options of the Company exercised during the six months ended 30 June 2014 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
20 July 2004	**5.92**	**11.79**	**54,677,120**	**9,236,000**
15 February 2006	**6.35**	**11.77**	**118,287,800**	**18,628,000**
15 October 2008	**5.57**	**11.91**	**89,596,213**	**16,085,496**
15 October 2008	**8.26**	**11.92**	**123,147,836**	**14,908,939**
			385,708,969	**58,858,435**

As at 30 June 2014, all of the 115,639,642 outstanding share options (31 December 2013: 174,498,077), were exercisable, and the weighted average exercise price was HKD6.64 (31 December 2013: HKD6.61).

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

Date of options grant	Vesting period	Exercisable period (Note i)	The price per share to be paid on exercise of options	Number of share options outstanding as at 30 June 2014	Number of share options outstanding as at 31 December 2013
Share options granted under the Share Option Scheme:					
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2014	HKD5.92	**4,618,000**	13,854,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2014	HKD6.20	**128,000**	128,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2015	HKD6.35	**53,240,000**	71,868,000
Share options granted under the Special Purpose Share Option Scheme:					
15 October 2008	15 October 2008 to 17 May 2009	15 October 2008 to 16 November 2014	HKD5.57	**27,590,200**	43,675,696
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2014	HKD8.26	**30,063,442**	44,972,381
				115,639,642	174,498,077

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

Note i: In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board of Directors pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board of Directors as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" was in force until middle of 2013, the Board of Directors further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 30 June 2014, approximately 3,171,780 share options held by Transferred Personnel remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board of Directors pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

Note ii: The options outstanding as at 30 June 2014 had a weighted average remaining contractual life of 0.49 years (31 December 2013: 0.97 years).

29. DIVIDENDS

At the annual general meeting held on 16 April 2014, the shareholders of the Company approved the payment of a final dividend of RMB0.16 per ordinary share for the year ended 31 December 2013 totaling approximately RMB3,806 million (for the year ended 31 December 2012: final dividend of RMB0.12 per ordinary share, totaling approximately RMB2,836 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2014. Among the dividend payable of approximately RMB773 million was due to Unicom BVI as at 30 June 2014.

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from Tax Bureau, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2014, 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 unaudited condensed consolidated interim financial information for the undistributed profits of the Company's subsidiaries in the PRC.

For the Company's non-PRC TRE shareholders, the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC TRE 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.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

30. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2014 and 2013 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the six months ended 30 June 2014 and 2013 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. All dilutive potential ordinary shares for the six months ended 30 June 2014 and 2013 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme; and (iii) the convertible bonds.

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

	Six months ended 30 June	
	2014	2013
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic earnings per share	**6,689**	5,317
Imputed finance cost on the liability component of convertible bonds	**104**	105
Profit attributable to equity shareholders of the Company used in computing diluted earnings per share	**6,793**	5,422
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	**23,800**	23,587
Dilutive equivalent shares arising from share options	**45**	154
Dilutive equivalent shares arising from convertible bonds	**935**	918
Shares used in computing diluted earnings per share	**24,780**	24,659
Basic earnings per share (in RMB)	**0.28**	0.23
Diluted earnings per share (in RMB)	**0.27**	0.22

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

31. FAIR VALUE ESTIMATION

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits, financial assets at fair value through other comprehensive income, accounts receivable, receivable for the sales of mobile handsets, amounts due from related parties and domestic carriers. Financial liabilities of the Group mainly include accounts payable and accrued liabilities, short-term bank loans, commercial papers, corporate bonds, promissory notes, long-term bank loans, convertible bonds, other obligations and amounts due to ultimate holding company, related parties and domestic carriers.

(a) Financial assets and liabilities measured at fair value

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

- Level 1 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuation: observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs for which market data are not available
- Level 3 valuation: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 30 June 2014:

	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	**6,846**	**–**	**–**	**6,846**
– Unlisted	**–**	**–**	**24**	**24**

The following table presents the Group's assets that are measured at fair value at 31 December 2013:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	6,497	–	–	6,497

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

31. FAIR VALUE ESTIMATION (CONTINUED)

(a) Financial assets and liabilities measured at fair value (Continued)

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

During the six months ended 30 June 2014, there was no transfer between Level 1 and Level 2, or transfer into or out of Level 3 (six months ended 30 June 2013: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013. Their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts as at 30 June 2014	**Fair values as at 30 June 2014**	**Fair value measurements as at 30 June 2014 categorised into**			Carrying amounts as at 31 December 2013	Fair value as at 31 December 2013
			Level 1	**Level 2**	**Level 3**		
Non-current portion of long-term bank loans	**461**	**432**	**–**	**–**	**432**	481	434
Promissory notes	**8,989**	**9,149**	**–**	**–**	**9,149**	–	–
Convertible bonds	**11,165**	**11,200**	**–**	**–**	**11,200**	11,002	10,929
Corporate bonds	**2,000**	**1,985**	**–**	**–**	**1,985**	2,000	1,959

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 2.23% to 3.24% (31 December 2013: 3.58% to 3.82%) per annum.

The fair value of the Group's promissory notes at 30 June 2014 is computed based on the expected cash flows of principal and interests payment discounted at market rate of 4.86% and 4.03% per annum.

The fair value of the convertible bonds is estimated as being the present values of future cash flows, discounted at interest rates based on the government yield curve as at 30 June 2014 plus an adequate constant credit spread, adjusted for the Group's own credit risk.

The fair value of the corporate bonds is based on cash flows discounted using rates based on the market rate of 4.88% (31 December 2013: 6.01%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 30 June 2014 and 31 December 2013 due to the nature or short maturity of those instruments.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

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

Management considers certain state-owned enterprises have material transactions with the Group in its ordinary course of business, which include but not limited to 1) rendering and receiving telecommunications services, including interconnection revenue/charges; 2) purchasing of goods, including use of public utilities; and 3) placing of bank deposits and borrowing money. The Group's telecommunications network depends, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the financial statements.

Management believes that meaningful information relating to related party transactions has been disclosed below.

32.1 Connected transactions with Unicom Group and its subsidiaries

(a) Recurring transactions

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

	Six months ended 30 June	
	2014	2013
Transactions with Unicom Group and its subsidiaries:		
Charges for value-added telecommunications services	**23**	20
Rental charges for property leasing	**473**	460
Charges for lease of telecommunications resources	**136**	164
Charges for engineering design and construction services	**649**	664
Charges for shared services	**63**	73
Charges for equipment procurement services	**31**	81
Charges for ancillary telecommunications services	**1,049**	798
Charges for comprehensive support services	**184**	131
Income from comprehensive support services	**10**	37

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(b) Renewal of continuing connected transactions in October 2013

The agreements governing the recurring related party transactions disclosed in (a) above were expired on 31 December 2013. Accordingly, on 24 October 2013, CUCL entered into the new agreement, "2013 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. Major changes of the key terms between the new agreement and the previous agreements are set out as follows:

2013 Comprehensive Services Agreement has a term of three years commencing on 1 January 2014 and expiring on 31 December 2016, and the service fees payable shall be calculated on the same basis as under previous agreements. Annual caps for certain transactions have changed under the new agreement.

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

Amount due to Unicom Group and its subsidiaries as at 30 June 2014 included the unsecured short-term loan from Unicom Group BVI of HKD600 million (equivalent to RMB476 million) (31 December 2013: Nil) with interest rate at HIBOR plus 2.3% per annum is repayable in 2015 and the unsecured entrusted loan from Unicom Group of RMB308 million (31 December 2013: RMB1,344 million) with interest rate at 5.4% per annum.

In addition, amounts due to Unicom Group as at 30 June 2014 and 31 December 2013 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million.

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

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(d) Commitments to related parties

As at 30 June 2014 and 31 December 2013, the Group had total future aggregate minimum operating lease payments to Unicom Group and its subsidiaries under non-cancellable operating leases as follows:

	30 June 2014	31 December 2013
Unicom Group and its subsidiaries	**919**	926

32.2 Key management compensation

The aggregate amounts of fees and emoluments paid/payable to directors of the Company during the six months ended 30 June 2014 and 2013 are set out below:

	Six months ended 30 June	
	2014 (RMB'000)	2013 (RMB'000)
Non-executive directors:		
Fees	**1,089**	1,105
	1,089	1,105
Executive directors:		
Fees	**–**	–
Other emoluments		
– Salaries and allowances	**550**	550
– Bonuses paid and payable	**1,250**	1,250
– Other benefits (a)	**–**	167
– Contributions to pension schemes	**167**	151
	1,967	2,118
	3,056	3,223

(a) Other benefits represent the share-based compensation cost recognised during the six months ended 30 June 2014 and 2013 for the share options (see Note 28) granted to the directors of the Company under the Company's share option schemes.

Notes to Unaudited Condensed Consolidated Interim Financial Information

(All amounts in RMB millions unless otherwise stated)

33. CONTINGENCIES AND COMMITMENTS

33.1 Capital commitments

As at 30 June 2014 and 31 December 2013, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2014			31 December 2013
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**48**	**10,408**	**10,456**	11,815
Authorised but not contracted for	**13,993**	**42,992**	**56,985**	16,557
	14,041	**53,400**	**67,441**	28,372

33.2 Operating lease commitments

As at 30 June 2014 and 31 December 2013, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	30 June 2014			31 December 2013
	Land and buildings	**Equipment**	**Total**	Total
Leases expiring:				
– not later than one year	**3,095**	**1,131**	**4,226**	5,100
– later than one year and not later than five years	**3,659**	**1,325**	**4,984**	7,170
– later than five years	**1,593**	**443**	**2,036**	2,163
	8,347	**2,899**	**11,246**	14,433

33. CONTINGENCIES AND COMMITMENTS (CONTINUED)

33.3 Contingent liabilities

In 2011, the National Development and Reform Commission ("NDRC") investigated the alleged monopolistic conducts in the broadband internet business of the Group. Based on management's assessment and continuous discussions with NDRC, management considered the likelihood of material future cash outflow as a result of the investigation is remote. Accordingly, no provisions were recorded as at 30 June 2014 and 31 December 2013.

34. EVENTS AFTER THE REPORTING PERIOD

On 11 July 2014, the Company (through CUCL) entered into a promoters' agreement with the subsidiary of China Mobile Limited and China Telecom Corporation Limited to establish China Communications Facilities Services Corporation Limited. Pursuant to the promoters' agreement, the Company will subscribe for 3.01 billion shares at a par value of RMB1.00 per share in the registered capital of China Communications Facilities Services Corporation Limited in cash, representing 30.1% of the registered capital of China Communications Facilities Services Corporation Limited.

On 14 July 2014, CUCL issued tranche two of 2014 promissory notes in an amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interest at 4.84% per annum.

On 15 July 2014, CUCL issued tranche one of 2014 commercial papers in an amount of RMB10 billion, with a maturity period of 365 days from the date of issue and which carries interest at 4.60% per annum.

On 24 July 2014, the Company issued the Drawdown Notes under the MTN Programme in an aggregate nominal amount of RMB2.5 billion, with a maturity period of 2 years from the date of issue and which carries interest at 3.80% per annum.

35. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 7 August 2014.

Independent Review Report

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

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 7 to 41 which comprises the unaudited condensed consolidated interim balance sheet of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2014 and the related unaudited condensed consolidated interim statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof, and to be in compliance with either International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, depending on whether the issuer's annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") or Hong Kong Financial Reporting Standards ("HKFRSs") respectively. As the annual financial statements of the Group are prepared in accordance with both IFRSs and HKFRSs, the directors are responsible for the preparation and presentation of the interim financial information in accordance with both International Accounting Standard 34 and Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" and Hong Kong Accounting Standard 34 "Interim Financial Reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

7 August 2014

Other Information

SHARE OPTION SCHEMES OF THE COMPANY

1. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme, which was amended on 13 May 2002, 11 May 2007 and 26 May 2009 (the "Share Option Scheme"). The purpose of the Share Option Scheme was to provide incentives and rewards to employees who have made contributions to the development of the Company. The Share Option Scheme was valid and effective for a period of 10 years commencing on 21 June 2000 and expired on 21 June 2010. Following the expiry of the Share Option Scheme, no further share option can be granted under the Share Option Scheme, but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Under the Share Option Scheme:

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

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

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

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

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

(a) the nominal value of the shares;

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

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

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

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

As at 30 June 2014, 57,986,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.24% 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, 946,000 share options were held by the Directors as at 30 June 2014. Please refer to the subsection headed "Share Option Schemes of the Company – 4. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" for details. All of the share options granted and outstanding as at 30 June 2014 are governed by the terms of the Share Option Scheme.

During the six months ended 30 June 2014, the following share options granted under the Share Option Scheme were exercised:

Other Information

Number of Options	Exercise Price (HKD)
9,236,000	5.92
18,628,000	6.35

2. Special Purpose Share Option Scheme

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

A. Grant of Special Unicom Options and Exercise Price

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

Number of Special Unicom Options = X x Y

Exercise price of each Special Unicom Option = Z/X

where:

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

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

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

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

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

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

B. Exercise of Special Unicom Options

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

(i) Special Unicom Options granted to the Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the "2004 Netcom Options") and held by them as at the Scheme Record Time (the "Special Purpose 2004 Unicom Options") are effective from 15 October 2008 until 16 November 2014 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2014 shall lapse automatically. The respective exercise periods of the Special Purpose 2004 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company – 4. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" below; and

(ii) Special Unicom Options granted to Eligible Participants in respect of the Netcom Options granted to them on 6 December 2005 (the "2005 Netcom Options") and held by them as at the Scheme Record Time (the "Special Purpose 2005 Unicom Options") are effective from 15 October 2008 until 5 December 2014 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised by 5 December 2014 shall lapse automatically. The respective exercise periods of the Special Purpose 2005 Unicom Options and the maximum number of such options exercisable at each period are set forth in Note 3 under the subsection headed "Share Option Schemes of the Company – 4. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" below.

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

As at 30 June 2014, 57,653,642 share options had been granted and remained valid under the Special Purpose Share Option Scheme, representing approximately 0.24% of the issued share capital of the Company as at the latest practicable date prior to the printing of this interim report. All of the share options granted and outstanding as at 30 June 2014 are governed by the terms of the Special Purpose Share Option Scheme.

During the six months ended 30 June 2014, the following share options granted under the Special Purpose Share Option Scheme were exercised:

Number of Options	Exercise Price (HKD)
16,085,496	5.57
14,908,939	8.26

3. 2014 Share Option Scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The purpose of the 2014 Share Option Scheme was to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Following the expiry of the 2014 Share Option Scheme, no further share option can be granted under the 2014 Share Option Scheme, but the provisions of the 2014 Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2014

Other Information

Share Option Scheme. Under the 2014 Share Option Scheme:

(1) share options may be granted to employees including all Directors;

(2) any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company in the case such director is a grantee of the options) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders;

(3) the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme shall be calculated in accordance with the following formula:

$$N = A - B - C$$

where:

"N" is the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme;

"A" is the maximum aggregate number of shares in respect of which shares options may be granted pursuant to the 2014 Share Option Scheme and any other share option schemes of the Company, being 10% of the aggregate of the number of shares in issue as at the date of adoption of the 2014 Share Option Scheme;

"B" is the maximum aggregate number of shares underlying the share options already granted pursuant to the 2014 Share Option Scheme; and

"C" is the maximum aggregate number of shares underlying the options already granted pursuant to any other share option schemes of the Company.

Shares in respect of share options which have lapsed in accordance with the terms of the 2014 Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of determining the maximum aggregate number of shares in respect of which options may be granted pursuant to the 2014 Share Option Scheme.

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

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

(a) the closing price of the shares on the Hong Kong Stock Exchange on the offer date in respect of the share options; and

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

(6) the total number of shares in the Company issued and to be issued upon exercise of the share options granted to a participant of the 2014 Share Option Scheme (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of the Company; and

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

No share options had been granted since adoption of the 2014 Share Option Scheme.

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

	Capacity and Nature	Date of Grant[3]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2014[1]	Movement During the Period Granted[1]	Exercised[1]	Lapsed[1]	No. of Options Outstanding as at 30 June 2014[1]
Directors								
Chang Xiaobing (Chairman and CEO)	Beneficial owner (Personal)	15 February 2006	6.35	746,000	–	–	–	746,000
Lu Yimin	–	–	–	–	–	–	–	–
Tong Jilu	Beneficial owner (Personal)	15 February 2006	6.35	200,000	–	–	–	200,000
Li Fushen	–	–	–	–	–	–	–	–
Cesareo Alierta Izuel	–	–	–	–	–	–	–	–
Cheung Wing Lam Linus	–	–	–	–	–	–	–	–
Wong Wai Ming	–	–	–	–	–	–	–	–
John Lawson Thornton	–	–	–	–	–	–	–	–
Chung Shui Ming Timpson	–	–	–	–	–	–	–	–
Cai Hongbin	–	–	–	–	–	–	–	–
Law Fan Chiu Fun Fanny	–	–	–	–	–	–	–	–
Employees		20 July 2004	5.92	13,854,000	–	9,236,000	–	4,618,000
		21 December 2004	6.20	128,000	–	–	–	128,000
		15 February 2006	6.35	70,922,000	–	18,628,000	–	52,294,000
		15 October 2008	5.57	43,675,696	–	16,085,496	–	27,590,200
		15 October 2008	8.26	44,972,381	–	14,908,939	–	30,063,442
								114,693,642[2]
Total				**174,498,077**				**115,639,642**

Notes:

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

2. The share options outstanding as at 30 June 2014 include approximately 3,171,780 share options held by the option holders who were determined by the Board as "Transferred Personnel" under the applicable share option schemes due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring.

Other Information

3. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Share Option Scheme:		
20 July 2004	5.92	20 July 2005 to 19 July 2014 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2014 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2014 (in respect of the remaining 30% of the options granted)
21 December 2004	6.20	21 December 2005 to 20 December 2014 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2014 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2014 (in respect of the remaining 30% of the options granted)
15 February 2006	6.35	15 February 2008 to 14 February 2015 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2015 (in respect of the remaining 50% of the options granted)
Options Granted under the Special Purpose Share Option Scheme:		
15 October 2008	5.57	15 October 2008 to 16 November 2014 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2006 to 16 November 2010; 17 May 2007 to 16 November 2010 and 17 May 2008 to 16 November 2010, respectively) 17 May 2009 to 16 November 2014 (in respect of the options granted in relation to the 2004 Netcom Options outstanding as at the Scheme Record Time and exercisable from 17 May 2009 to 16 November 2010)
15 October 2008	8.26	15 October 2008 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2007 to 5 December 2011) 6 December 2008 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2008 to 5 December 2011) 6 December 2009 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2009 to 5 December 2011) 6 December 2010 to 5 December 2014 (in respect of the options granted in relation to the 2005 Netcom Options outstanding as at the Scheme Record Time and exercisable from 6 December 2010 to 5 December 2011)

* In 2009, the exercise periods of approximately 25,000,000 share options were extended by one year by the Board pursuant to the terms of the Share Option Scheme. The reasons for such extension were that (i) the holders of those share options were determined by the Board as "Transferred Personnel" under the relevant terms of the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring and (ii) those share options were not exercisable due to a "Mandatory Moratorium" under the relevant terms of the Share Option Scheme. As the "Mandatory Moratorium" was in force until middle of 2013, the Board further extended the exercise periods of certain share options by one year in each of March 2010, 2011, 2012 and 2013 under the relevant terms of the Share Option Scheme. As at 30 June 2014, approximately 3,171,780 share options held by Transferred Personnel (as discussed in Note 2 above) remained valid.

Furthermore, in each of March 2010, 2011, 2012 and 2013, the expiry dates for certain share options were extended by one year by the Board pursuant to the terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those share options were not exercisable during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

4. Details of share options exercised during the six months ended 30 June 2014 are as follows:

Grant date	Exercise price HKD	Weighted average closing price per share at respective dates immediately before dates of exercise of options HKD	Proceeds received HKD	Number of shares
20 July 2004	5.92	11.79	54,677,120	9,236,000
15 February 2006	6.35	11.77	118,287,800	18,628,000
15 October 2008	5.57	11.91	89,596,213	16,085,496
15 October 2008	8.26	11.92	123,147,836	14,908,939

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

As at 30 June 2014, the interests and short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

Director	Capacity	Ordinary Shares Held	Percentage of Issued Shares
Cheung Wing Lam Linus	Beneficial owner (Personal)	400,000	0.0017%
Chung Shui Ming Timpson	Beneficial owner (Personal)	6,000	0.0000%

Please refer to the subsection headed "Share Option Schemes of the Company – 4. Interests of Directors, Chief Executives and Employees under the Share Option Scheme and the Special Purpose Share Option Scheme" hereinabove for the interests and rights to acquire shares held by the Directors and the chief executive of the Company as at 30 June 2014 under the Share Option Scheme and the Special Purpose Share Option Scheme.

Apart from those disclosed herein, at no time during the six months ended 30 June 2014 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 2014, 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 2014:

	Ordinary Shares Held		Percentage of
	Directly	Indirectly	Issued Shares[5]
(i) China United Network Communications Group Company Limited ("Unicom Group")[1,2]	–	18,032,853,047	75.94%
(ii) China United Network Communications Limited ("Unicom A Share Company")[1]	–	9,725,000,020	40.95%
(iii) China Unicom (BVI) Limited ("Unicom BVI")[1]	9,725,000,020	–	40.95%
(iv) China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI")[2,3]	8,082,130,236	225,722,791	34.98%
(v) Telefónica S.A. ("Telefónica")[4]	–	1,191,047,587	5.02%
(vi) Telefónica Internacional S.A.U.[4]	1,191,047,587	–	5.02%

Notes:

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

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

3. Unicom Group BVI holds 8,082,130,236 shares (representing 34.03%[5] of the issued shares) of the Company directly. In addition, Unicom Group BVI is also deemed under the SFO to be interested in 225,722,791 shares (representing 0.95%[5] of the issued shares) of the Company held as trustee on behalf of a PRC shareholder.

4. Telefónica Internacional S.A.U. is a wholly-owned subsidiary of Telefónica. In accordance with the SFO, the interests of Telefónica Internacional S.A.U. are deemed to be, and have therefore been included in, the interests of Telefónica.

5. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of all the issued share of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.

Apart from the foregoing, as at 30 June 2014, no person had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Please also refer to Note 12 to the interim financial information for details of the share capital of the Company.

INTERIM DIVIDEND

It was resolved by the Board that no interim dividend for the six months ended 30 June 2014 will be paid.

CHARGE ON ASSETS

As at 30 June 2014, no property, plant and equipment was pledged to banks as loan security (31 December 2013: Nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the Company's listed shares.

COMPOSITION OF THE BOARD

The directors during the period were:

Executive Directors:

Chang Xiaobing *(Chairman and CEO)*
Lu Yimin
Tong Jilu
Li Fushen

Non-Executive Director:

Cesareo Alierta Izuel

Independent Non-Executive Directors:

Cheung Wing Lam Linus
Wong Wai Ming
John Lawson Thornton
Chung Shui Ming Timpson
Cai Hongbin
Law Fan Chiu Fun Fanny

Subsequent to period end, Mr. Tong Jilu retired as Executive Director of the Company and Mr. Zhang Junan was appointed as Executive Director of the Company, both with effect from 8 August 2014.

CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of our Directors since the publication of the Company's 2013 annual report:

- Mr. Tong Jilu was appointed as General Manager of China Communications Facilities Services Corporation Limited.
- Mr. Cheung Wing Lam Linus retired as Chairman of the Board of Governors of Centennial College and retitled as Chairman of the Council of Centennial College.
- Mr. John Lawson Thornton was appointed as Chairman of Barrick Gold Corporation (listed on the Toronto Stock Exchange and New York Stock Exchange).
- Mr. Chung Shui Ming Timpson was appointed as Independent Non-executive Directors of Jinmao Investments and Jinmao (China) Investments Holdings Limited (listed on the Hong Kong Stock Exchange).
- Mrs. Law Fan Chiu Fun Fanny was appointed as Chairman of the Board of Directors of Hong Kong Science and Technology Parks Corporation.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the "independence" requirements in relation to an Audit Committee member under applicable laws, regulations and rules. The Chairman of the Audit Committee is an accountant with expertise and experience in accounting and financial management. Another member of the Audit Committee is also an accountant with extensive accounting professional experience.

Other Information

The major responsibilities of the Audit Committee include: as the key representative body for overseeing the Company's relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor's independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the internal control system with the management and reviewing the reports on the internal control procedures of the Company.

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2014.

REMUNERATION COMMITTEE

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

The major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies and structure for Directors' and senior management's remuneration; considering and making recommendation to the Board on the remuneration packages of Directors and senior management; and considering and approving the Company's share option schemes. The Remuneration Committee conducts performance review of the Chief Executive Officer (the "CEO") and determines the CEO's year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance review and determination of performance-based year-end bonuses for the other members of the Company's management, which is subject to the review of the Remuneration Committee. In addition, the Remuneration Committee consults the Chairman on the remuneration proposals for other executive directors.

NOMINATION COMMITTEE

The Nomination Committee comprises Mr. Cai Hongbin, Mr. Chang Xiaobing, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson. Except for Mr. Chang Xiaobing, who is the Chairman and CEO of the Company, each of Mr. Cai Hongbin, Mr. John Lawson Thornton and Mr. Chung Shui Ming Timpson is an independent non-executive director of the Company. The Chairman of the Nomination Committee is Mr. Cai Hongbin.

The major responsibilities of the Nomination Committee include: reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board; formulating, reviewing and implementing the board diversity policy; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; giving its opinion to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

CORPORATE GOVERNANCE

1. Compliance with Corporate Governance Code

The Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Corporate Governance Code (the "Code Provision") as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2014 except the following:

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

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

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

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

2. Model Code for Securities Transactions by Directors

The Company has established the "Code for Dealing of Securities by Directors" in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries to Directors as to their respective compliance with the relevant code for securities transactions for the six months ended 30 June 2014, and all of the Directors have confirmed such compliance.

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

Compliance with the requirements under Section 404 of the SOX Act has been an area of emphasis for the Company. The relevant sections of the SOX Act require the management of non-U.S. issuers with equity securities listed on U.S. stock exchanges to issue reports and make representations as to internal control over financial reporting.

Other Information

The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end. Under Section 404 of the SOX Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting as at 31 December 2013. The management's assessment report was included in the Company's annual report on Form 20-F for the year ended 31 December 2013 ("Form 20-F"), as filed with the United States Securities and Exchange Commission on 17 April 2014.

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

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the SOX Act. In addition, the Company is subject to the listing standards of the New York Stock Exchange to the extent they apply to non-U.S. issuers. As a non-U.S. issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its website (www.chinaunicom.com.hk) and included in the Form 20-F a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.

5. Appendix 16 of the Listing Rules

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2013 Annual Report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2014, the Group had approximately 220,560 employees, 210 employees and 90 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 57,710 temporary staff in Mainland China. For the six months ended 30 June 2014, employee benefit expenses were approximately RMB16.969 billion (for the six months ended 30 June 2013: RMB14.934 billion). The Group endeavors to maintain its employees' remuneration in line with the market trend and to remain competitive. Employees' remuneration is determined in accordance with the Group's remuneration and bonus policies based on their performance. The Group also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits and internal and external training programmes, tailored in accordance with individual needs.

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

FORWARD-LOOKING STATEMENTS

This interim report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to the Company's competitive position; the Company's business strategies and plans, including those relating to the Company's networks, products and services, as well as sales and marketing, in particular, such networks, products and services, sales and marketing in respect of the Company's 3G and 4G business; the Company's future business condition, future financial results, cash flows, financing plans and dividends; the future growth of market demand of, and opportunities for, the Company's new and existing products and services, in particular, 3G and 4G services; and future regulatory and other developments in the PRC telecommunications industry.

The words "anticipate", "believe", "could", "estimate", "intend", "may", "seek", "will" and similar expressions, as they relate to the Company, are intended to identify certain of these forward-looking statements. The Company does not intend to update any of these forward-looking statements and are under no obligation to do so.

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

- changes in the regulatory regime and policies for the PRC telecommunications industry, including, without limitation, changes in the regulatory policies of the Ministry of Industry and Information Technology (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, and other relevant government authorities of the PRC;

- changes in the PRC telecommunications industry resulting from the issuance of 3G and 4G licenses by the central government of the PRC;

- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;

- changes in telecommunications and related technologies and applications based on such technologies;

- the level of demand for telecommunications services, in particular, 3G and 4G 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;

Other Information

- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

- the results of the anti-monopoly investigation by the National Development and Reform Commission of the PRC relating to the price charged for Internet dedicated leased line access service provided by the Company to Internet service providers;

- changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans; and

- changes in the political, economic, legal, tax and social conditions in the PRC, including the PRC government's policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry.

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

By Order of the Board
Chu Ka Yee
Company Secretary

Hong Kong, 7 August 2014