China unicom 中国联通

CHINA UNICOM (HONG KONG) LIMITED

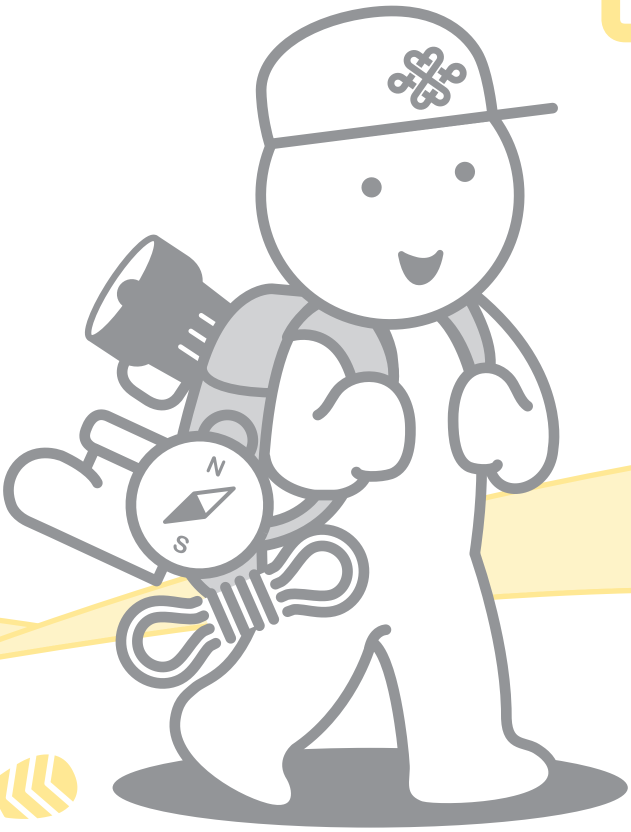
Incorporated in Hong Kong with limited liability

Stock Code: 0762

# Interim Report 2015

# CONTENTS



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# CHAIRMAN'S STATEMENT

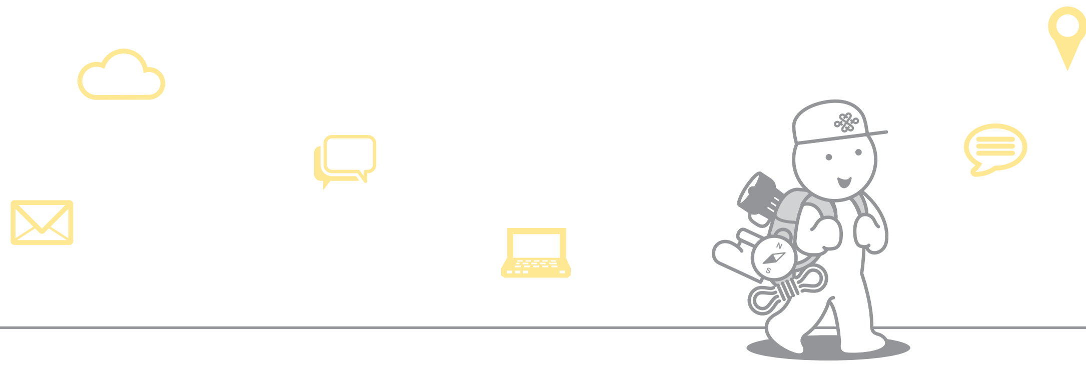
**CHANG XIAOBING**
Chairman & CEO

## DEAR SHAREHOLDERS,

First of all, on behalf of the Board of China Unicom, I would like to express my sincere gratitude to the shareholders and the different parts of the society for their support. In the first half of 2015, the Company proactively followed a series of key strategic deployments initiated by the government such as "Internet+", raising network speed and lowering data tariffs, enhanced network capabilities, promoted subscriber migration and consumption upgrade, explored innovative businesses, and further implemented unified operation. As a result, the Company achieved continuous improvement in its development structure and profitability, and further enhanced its differentiated competitive advantages and overall strength.

## OVERALL RESULTS

In the first half of 2015, the Company proactively adapted to the new changes in industry policies and market environment and accelerated the transformation of development model. Although the Company's service revenue in the first half of 2015 decreased by 5.3% over the same period last year to RMB120.27 billion, its development quality and business structure showed the continuous improvement, with continuously rising contribution from mobile broadband and high-speed fixed-line broadband businesses driving non-voice's share of service revenue up by 8.8 percentage points over the same period last year to 68.3%. The Company's financial status remained solid. In the first half of 2015, the Company's EBITDA reached RMB50.46 billion, up by 5.8% year-on-year; EBITDA as a percentage of service revenue reached 42.0%, up by 4.4 percentage points year-on-year; net profit increased by 4.5% year-on-year to RMB6.99 billion; and free cash flow reached RMB8.45 billion.



## DEVELOPMENT THROUGH TRANSFORMATION

**Accelerating subscriber migration.** In the first half of 2015, the Company sped up the transformation of its sales and marketing model which shifted the focus from quantity to quality, and accelerated the adjustment and optimisation of its subscriber structures by focusing on 4G and fiber optic fixed-line broadband businesses. The Company accelerated the integrated operation of its mobile business, fully opened its 4G network to all the users, promoted 4G smartphones, sped up the user migration from 2G/3G to 4G, and improved its product portfolio to address both existing customers and new subscribers. As a result, the Company's mobile user structure and revenue mix were further optimised. In the first half of 2015, the number of its mobile broadband subscribers increased by 8.68 million to 157.79 million, accounting for 54.5% of its total mobile subscribers, up by 6.8 percentage points over the same period last year. The Company's mobile service revenue reached RMB73.46 billion, of which 71.8% came from mobile broadband business, up by 4.9 percentage points year-on-year. Meanwhile, leveraging on the construction of all fiber optic network, the Company sped up the development of fiber optic broadband subscriber base and improved the related customer service system to ensure the rapid growth of its fixed-line broadband business. In the first half of 2015, the Company's fixed-line broadband service revenue increased by 8.5% year-on-year to RMB27.0 billion; fixed-line broadband subscribers increased by 4.7% year-on-year to 70.59 million. Driven by the growing fixed-line broadband business, the Company's fixed-line service revenue increased by 2.2% year-on-year to RMB46.19 billion, of which 58.4% was from its fixed-line broadband business, resulting in a further optimised fixed-line business structure. The Company also utilised its resources and launched an innovative service package – "Smart Wo Family" – to cater to the needs of family users, which provides total communication and information solutions across all networks, all terminals and all businesses. In the first half of 2015, the Company developed 2.13 million "Smart Wo Family" users.

**Accelerating consumption upgrade.** The Company firmly grasped the opportunities brought by the rapidly growing data demand, and accelerated the consumption upgrade from voice service to data service. The Company promoted data volume operation and application innovation, and proactively explored opportunities to cooperate with Internet companies to boost data traffic and data value. In the first half of 2015, the data usage of the Company's handset subscribers grew by 47.4% year-on-year and the average monthly data traffic for mobile broadband customers grew by 34.1% year-on-year; non-voice's share of mobile service revenue and fixed-line service revenue reached 58.5% and 83.3%, respectively.

**Accelerating business innovation.** In the first half of 2015, leveraging on the implementation of national "Internet+" strategy and the fast growing demand for informatisation, the Company focused on key areas such as IDC, cloud computing, ICT and the Internet of Things, proactively pushed forward the specialised operation, and enhanced the promotion of industry applications in education, automobile as well as smart city. In the first half of 2015, IDC and cloud computing service revenue increased by 36.0% year-on-year to RMB3.43 billion and ICT service revenue increased by 18.9% to RMB2.44 billion. Meanwhile, the Company sped up its strategic deployments in emerging businesses. CMB-Unicom Consumer Financing Company Limited is under operation with a focus on Internet finance. "Woego", the Company's B2B platform, already generated the transaction of RMB10 billion in the first half of 2015. Partnered with Telefónica, the location-based big data service company is also under full preparation. The above innovative initiatives in emerging businesses such as Internet applications will provide the Company with new room to grow and new capability to develop.

## NETWORK CAPABILITIES

In the first half of 2015, the Company continued to expand the broad coverage of its mobile broadband networks and optimised the in-depth coverage of its networks to provide quality experience in high-speed data services and maintain its mobile broadband network advantages. In the first half of 2015, the Company expanded its mobile broadband base stations by 272 thousand to 837 thousand, realising continuous 4G coverage in main areas. The Company accelerated the construction and upgrade of its fixed-line fiber optic broadband network, and the number of its fixed-line broadband access ports increased by 20.8% year-on-year, of which 83% is FTTX. The Company continued to increase its network load-carrying capability, and overall network capabilities were further enhanced. Moreover, the Company proactively conducted tests and trials in new evolving network technologies such as SDN and 1,000M fiber optic network so as to support the Company's sustainable development in the future.

## UNIFIED OPERATION

In the first half of 2015, leveraged on its cBSS system and "Woego" platform, the Company further promoted the centralised and unified operation in products, system support and customer service, and enhanced the integration of online and off-line operations. The Company strengthened big data analysis and applications, and boosted the operational efficiency in sales and marketing response, customer service, resource allocation and network maintenance. As a result, the capability for the centralised and unified operation improved continuously, the integrated online and off-line operation became more efficient, and the Company's differentiated competitive advantages were further consolidated and enhanced. Benefitting from the differentiated advantage of unified operation, the Company's mobile service resale business has been leading the industry, with nearly 90% market share in terms of the number of subscribers.

## OUTLOOK

In light of the macroeconomic transformation, the Chinese government is now paying unprecedented attention to the promotion of the information and telecommunications sectors, which has created new opportunities for the information and telecommunications industry. China Unicom will further pursue its strategy of "Leading Mobile Broadband and Innovating Operational Integration", consolidate and create differentiated service advantages, proactively adapt to market changes, firmly grasp opportunities, and accelerate subscriber migration, consumption upgrade as well as business innovation, so as to ensure the Company's continuous and rapid development. The Company will step up its 4G-oriented integrated mobile operation as well as the penetration and development of its fixed-line fiber optic network and business to improve quality and efficiency through continuous development. The Company will further step up the innovation, focus on key areas such as cloud computing, the Internet of Things, big data and mobile Internet, promote China Unicom's own "Internet+" Plan and e-commerce across all businesses, and push forward the data volume operation and the innovation of application services, so as to create new differentiated service advantages and new growth drivers. The Company will also further accelerate the construction of high-quality broadband networks, expand the coverage of its 4G network in both breadth and depth, and speed up its fixed-line broadband network to support the Company's development. Moreover, the Company will further speed up the centralised and unified operation, push forward the reform in key areas such as sales and marketing system, investment and construction, labor and resources allocation, speed up integrated online and off-line operations, and explore the specialised and market-oriented operation, so as to constantly enhance corporate vitality and organic energy.

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, 21 August 2015

# FINANCIAL OVERVIEW

## REVENUE

In the first half of 2015, total revenue was RMB144.69 billion, down by 3.3% as compared to the same period of last year. Out of total revenue, service revenue was RMB120.27 billion, down by 5.3% as compared to the same period of last year. It is primarily attributed to the impact of output value-added tax ("VAT") which arose from the replacement of business tax with VAT[1] ("VAT Reform") and transformation of the Company's sales and marketing model. Out of service revenue, service revenue from the mobile business was RMB73.46 billion, down by 9.7% as compared to the same period of last year. Service revenue from the fixed-line business was RMB46.19 billion, up by 2.2% as compared to the same period of last year.

As a result of the rapid development in the internet business and continuous optimisation in the Company business structure, service revenue from mobile broadband business[2] as a percentage of service revenue from the mobile business increased from 66.9% in the first half of 2014 to 71.8% in the first half of 2015. Service revenue from fixed-line broadband business as a percentage of service revenue from the fixed-line business increased from 55.1% in the first half of 2014 to 58.4% in the first half of 2015.

## COSTS AND EXPENSES[3]

In the first half of 2015, total costs and expenses were RMB135.75 billion, down by 3.5% as compared to the same period of last year.

The Company continued to strengthen its network capabilities and therefore further expanded the size of its assets scale. In light of this, depreciation and amortisation charge were RMB38.54 billion in the first half of 2015, up by 4.5% as compared to the same period of last year. The Company also increase its investment in network operation in a moderate manner and incurred network, operation and support expenses of RMB19.15 billion in the first half of 2015, up by 6.2% as compared to the same period of last year.

The Company pushed for the transformation of its sales and marketing model. As a result, selling and marketing expenses were RMB14.63 billion in the first half of 2015, down by 38.6% as compared to the same period of last year. Terminal subsidy cost of mobile broadband business was RMB1.22 billion in the first half of 2015, and as a percentage of service revenue from the mobile broadband business, there was a decrease from 6.1% in the first half of 2014 to 2.3% in the first half of 2015.

Interconnection charges were RMB6.56 billion in the first half of 2015, down by 13.3% as compared to the same period of last year.

The Company continued to emphasis employee appraisals and enhanced the incentive. As a result, employee benefit expenses were RMB17.93 billion in the first half of 2015, up by 5.6% as compared to the same period of last year.

## EARNINGS

The Company strived to relieve the negative impact of the VAT Reform through the transformation of its sales and marketing model and enhance efficiency in using its selling and marketing expenses. In the first half of 2015, profit before income tax was RMB8.93 billion and profit for the period was RMB6.99 billion, up by 4.5% as compared to the same period of last year. Basic earnings per share was RMB0.292 in the first half of 2015. EBITDA[4] was RMB50.46 billion in the first half of 2015, up by 5.8% as compared to the same period of last year. EBIDTA as a percentage of the service revenue was 42.0% in the first half of 2015, up by 4.4 percentage points as compared to the same period of the last year.

## OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2015, the Company's net cash flow from operating activities was RMB38.28 billion. Capital expenditure was RMB29.83 billion in the first half of 2015.

## STATEMENT OF FINANCIAL POSITION

Liabilities-to-assets ratio changed from 58.3% as at 31 December 2014 to 57.2% as at 30 June 2015. Debt-to-capitalisation ratio changed from 37.9% as at 31 December 2014 to 37.6% as at 30 June 2015.

*Note 1:* *The replacement of business tax with VAT implemented nationwide for the telecommunications industry from 1 June 2014.*

*Note 2:* *Mobile broadband business included 3G business and 4G business.*

*Note 3:* *Including interconnection charges, depreciation and amortisation, network, operation and support expenses, employee benefit expenses, selling and marketing expenses, costs of telecommunications products sold, general, administrative and other expenses, finance costs, interest income, share of loss of associates and other income-net.*

*Note 4:* *EBITDA represents profit for the period before finance costs, interest income, shares of loss of associates, 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 the Group.*

# UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

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

| | Note | 30 June 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **431,067** | 438,321 |
| Lease prepayments | | **9,119** | 9,211 |
| Goodwill | | **2,771** | 2,771 |
| Interest in associates | | **2,579** | 3,037 |
| Interest in joint ventures | | **1,011** | – |
| Deferred income tax assets | 6 | **6,070** | 6,215 |
| Financial assets at fair value through other comprehensive income | 7 | **5,856** | 5,902 |
| Other assets | 8 | **23,358** | 23,041 |
| | | **481,831** | 488,498 |
| **Current assets** | | | |
| Inventories and consumables | 9 | **5,731** | 4,378 |
| Accounts receivable | 10 | **18,198** | 14,671 |
| Prepayments and other current assets | 11 | **11,558** | 10,029 |
| Amounts due from related parties | 32.1 | **9** | 12 |
| Amounts due from domestic carriers | | **3,023** | 2,120 |
| Short-term bank deposits | | **55** | 56 |
| Cash and cash equivalents | | **16,312** | 25,308 |
| | | **54,886** | 56,574 |
| **Total assets** | | **536,717** | 545,072 |
| **EQUITY** | | | |
| **Equity attributable to equity shareholders of the Company** | | | |
| Share capital | 12 | **179,102** | 179,101 |
| Other reserves | | **(19,549)** | (19,482) |
| Retained profits | | | |
| – Proposed 2014 final dividend | 29 | **–** | 4,789 |
| – Others | | **70,152** | 63,133 |
| **Total equity** | | **229,705** | 227,541 |

(All amounts in RMB millions)

| | Note | 30 June 2015 | 31 December 2014 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term bank loans | 13 | **389** | 420 |
| Promissory notes | 14 | **29,444** | 21,460 |
| Corporate bonds | 16 | **2,000** | 2,000 |
| Deferred income tax liabilities | 6 | **18** | 17 |
| Deferred revenue | | **1,462** | 1,497 |
| Other obligations | | **176** | 217 |
| | | **33,489** | 25,611 |
| **Current liabilities** | | | |
| Short-term bank loans | 17 | **74,991** | 91,503 |
| Commercial papers | 18 | **19,992** | 9,979 |
| Current portion of long-term bank loans | 13 | **43** | 45 |
| Convertible bonds | 15 | **11,220** | 11,167 |
| Accounts payable and accrued liabilities | 19 | **113,094** | 120,371 |
| Taxes payable | | **905** | 1,466 |
| Amounts due to ultimate holding company | 32.1 | **309** | 1,622 |
| Amounts due to related parties | 32.1 | **2,659** | 3,542 |
| Amounts due to domestic carriers | | **1,792** | 1,402 |
| Dividend payable | 29 | **920** | 771 |
| Current portion of deferred revenue | | **420** | 462 |
| Current portion of other obligations | | **2,635** | 2,698 |
| Advances from customers | | **44,543** | 46,892 |
| | | **273,523** | 291,920 |
| **Total liabilities** | | **307,012** | 317,531 |
| **Total equity and liabilities** | | **536,717** | 545,072 |
| **Net current liabilities** | | **(218,637)** | (235,346) |
| **Total assets less current liabilities** | | **263,194** | 253,152 |

The notes on pages 14 to 39 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 2015

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | **2015** | 2014 |
| Revenue | 20 | **144,685** | 149,569 |
| Interconnection charges | | **(6,558)** | (7,565) |
| Depreciation and amortisation | | **(38,543)** | (36,882) |
| Network, operation and support expenses | 21 | **(19,154)** | (18,035) |
| Employee benefit expenses | 22 | **(17,925)** | (16,969) |
| Costs of telecommunications products sold | 23 | **(25,080)** | (25,682) |
| Other operating expenses | 24 | **(25,504)** | (33,629) |
| Finance costs | 25 | **(3,230)** | (2,709) |
| Interest income | | **160** | 135 |
| Share of loss of associates | | **(460)** | – |
| Other income – net | 26 | **541** | 604 |
| **Profit before income tax** | | **8,932** | 8,837 |
| Income tax expenses | 6 | **(1,942)** | (2,148) |
| **Profit for the period** | | **6,990** | 6,689 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | | **6,990** | 6,689 |
| **Earnings per share for profit attributable to equity shareholders of the Company during the period:** | | | |
| Basic earnings per share (RMB) | 30 | **0.29** | 0.28 |
| Diluted earnings per share (RMB) | 30 | **0.28** | 0.27 |

The notes on pages 14 to 39 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 2015

(All amounts in RMB millions)

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| **Profit for the period** | **6,990** | 6,689 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to statement of income:** | | |
| Changes in fair value of financial assets through other comprehensive income | **(45)** | 349 |
| Tax effect on changes in fair value of financial assets through other comprehensive income | **11** | (82) |
| Changes in fair value of financial assets through other comprehensive income, net of tax | **(34)** | 267 |
| Remeasurement of net defined benefit liability, net of tax | **3** | (3) |
| | **(31)** | 264 |
| **Item that may be reclassified subsequently to statement of income:** | | |
| Currency translation differences | **(7)** | 4 |
| **Other comprehensive income for the period, net of tax** | **(38)** | 268 |
| **Total comprehensive income for the period** | **6,952** | 6,957 |
| **Total comprehensive income attributable to:** | | |
| Equity shareholders of the Company | **6,952** | 6,957 |

The notes on pages 14 to 39 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 2015

(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 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 |
| 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 |
| Dividends relating to 2013 (Note 29) | – | – | – | – | – | – | – | – | (3,806) | (3,806) |
| Balance at 30 June 2014 | 178,096 | – | – | 237 | (3,496) | 26,740 | 572 | (43,492) | 63,700 | 222,357 |
| Balance at 1 January 2015 | **179,101** | **–** | **–** | **29** | **(4,227)** | **27,906** | **572** | **(43,762)** | **67,922** | **227,541** |
| Total comprehensive income for the period | **–** | **–** | **–** | **–** | **(34)** | **–** | **–** | **(4)** | **6,990** | **6,952** |
| Equity-settled share option schemes under the new Hong Kong Companies Ordinance: | | | | | | | | | | |
| – Issuance of shares upon exercise of options | **1** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1** |
| – Transfer between reserves upon lapsing of options | **–** | **–** | **–** | **(29)** | **–** | **–** | **–** | **–** | **29** | **–** |
| Dividends relating to 2014 (Note 29) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(4,789)** | **(4,789)** |
| Balance at 30 June 2015 | **179,102** | **–** | **–** | **–** | **(4,261)** | **27,906** | **572** | **(43,766)** | **70,152** | **229,705** |

The notes on pages 14 to 39 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 2015

(All amounts in RMB millions)

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2015** | 2014 |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | | **39,668** | 44,428 |
| Income tax paid | | **(1,388)** | (2,699) |
| Net cash inflow from operating activities | | **38,280** | 41,729 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(39,796)** | (31,192) |
| Other cash flows arising from investing activities | | **(1,625)** | (1,475) |
| Net cash outflow from investing activities | | **(41,421)** | (32,667) |
| **Cash flows from financing activities** | | | |
| Dividend paid to equity shareholder of the Company | 29 | **(4,643)** | (3,677) |
| Other cash flows arising from financing activities | | **(1,207)** | (7,623) |
| Net cash outflow from financing activities | | **(5,850)** | (11,300) |
| **Net decrease in cash and cash equivalents** | | **(8,991)** | (2,238) |
| Cash and cash equivalents, beginning of period | | **25,308** | 21,506 |
| Effect of changes in foreign exchange rate | | **(5)** | 16 |
| **Cash and cash equivalents, end of period** | | **16,312** | 19,284 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash balances | | **2** | 4 |
| Bank balances | | **16,310** | 19,280 |
| | | **16,312** | 19,284 |

The notes on pages 14 to 39 are an integral part of this unaudited condensed consolidated interim financial information.

## 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.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2015 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.

The financial information for the year ended 31 December 2014 is extracted from the audited financial statements as set out in the Company's 2014 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.

## 2. BASIS OF PREPARATION (CONTINUED)

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 2014. 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 2014 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2015.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the new Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the new Hong Kong Companies Ordinance (Cap 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the new Hong Kong Companies Ordinance (Cap 622) (or under their equivalent requirements found in section 141 of the predecessor Hong Kong Companies Ordinance (Cap. 32)).

### (a) Going Concern Assumption

As at 30 June 2015, current liabilities of the Group exceeded current assets by approximately RMB218.6 billion (31 December 2014: approximately RMB235.3 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 RMB341.7 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB232.2 billion was unutilised as at 30 June 2015; 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 2015 have been prepared on a going concern basis.

## 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 2014.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015 and are applicable to the Group:

- Amendments to IAS/HKAS 19, "Defined benefit plans: Employee Contributions"
- Annual Improvements to IFRSs/HKFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs/HKFRSs 2011-2013 Cycle

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

In addition, the IASB and HKICPA also published a number of new standards, amendments to standards and interpretations which are effective for the financial year beginning after 1 January 2015 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.

(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 2015 and 2014 are as follows:

| | Six months ended 30 June 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Buildings | Tele-communications equipment | Office furniture, fixtures, motor vehicles and other equipment | Leasehold improvements | Construction-in-progress ("CIP") | Total |
| Cost: | | | | | | |
| Beginning of period | 68,768 | 882,834 | 19,108 | 4,429 | 58,739 | 1,033,878 |
| Additions | 3 | 187 | 92 | 95 | 29,556 | 29,933 |
| Transfer from CIP | 713 | 12,938 | 277 | 116 | (14,044) | – |
| Transfer to other assets | – | – | – | – | (1,217) | (1,217) |
| Disposals | (13) | (10,521) | (265) | (95) | – | (10,894) |
| End of period | 69,471 | 885,438 | 19,212 | 4,545 | 73,034 | 1,051,700 |
| Accumulated depreciation and impairment: | | | | | | |
| Beginning of period | (27,339) | (552,294) | (13,411) | (2,339) | (174) | (595,557) |
| Charge for the period | (1,644) | (32,269) | (789) | (434) | – | (35,136) |
| Impairment loss | – | (58) | – | – | (10) | (68) |
| Disposals | 13 | 9,803 | 226 | 86 | – | 10,128 |
| End of period | (28,970) | (574,818) | (13,974) | (2,687) | (184) | (620,633) |
| Net book value: | | | | | | |
| End of period | 40,501 | 310,620 | 5,238 | 1,858 | 72,850 | 431,067 |
| Beginning of period | 41,429 | 330,540 | 5,697 | 2,090 | 58,565 | 438,321 |

(All amounts in RMB millions unless otherwise stated)

## 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Six months ended 30 June 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Buildings | Tele–communications equipment | Office furniture, fixtures, motor vehicles and other equipment | Leasehold improvements | 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 |

For the six months ended 30 June 2015, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB223 million (for the six months ended 30 June 2014: loss of approximately RMB103 million).

(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 2014: 16.5%) on the estimated assessable profits for the six months ended 30 June 2015. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2015 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 2014: 25%). Taxation for certain subsidiaries in PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2014: 15%).

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Provision for income tax on the estimated taxable profits for the period | | |
| – Hong Kong | **14** | 19 |
| – Outside Hong Kong | **1,832** | 3,754 |
| Adjustments to prior years' current tax outside Hong Kong | **(61)** | (19) |
| | **1,785** | 3,754 |
| Deferred taxation | **157** | (1,606) |
| Income tax expenses | **1,942** | 2,148 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Applicable PRC statutory tax rate | **25.0%** | 25.0% |
| Non-deductible expenses | **0.9%** | 0.7% |
| Adjustments to prior years' current tax | **(0.7%)** | (0.2%) |
| Non-taxable income | **–** | (0.1%) |
| Impact of different tax rate | **(0.6%)** | (0.4%) |
| Deductible tax losses not recognised in prior years | **(2.2%)** | – |
| Others | **(0.7%)** | (0.7%) |
| Effective tax rate | **21.7%** | 24.3% |

(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 | |
|---|---|---|
| | **2015** | 2014 |
| Net deferred tax assets after offsetting: | | |
| – Beginning of period | **6,215** | 6,734 |
| – Deferred tax (charged)/credited to the statement of income | **(156)** | 1,607 |
| – Deferred tax credited/(charged) to other comprehensive income | **11** | (82) |
| – End of period | **6,070** | 8,259 |
| Net deferred tax liabilities after offsetting: | | |
| – Beginning of period | **(17)** | (26) |
| – Deferred tax charged to the statement of income | **(1)** | (1) |
| – End of period | **(18)** | (27) |

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| Listed in the PRC | **210** | 173 |
| Listed outside the PRC | **5,624** | 5,706 |
| Unlisted | **22** | 23 |
| | **5,856** | 5,902 |

For the six months ended 30 June 2015, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB45 million (for the six months ended 30 June 2014: increase of approximately RMB349 million). The decrease, net of tax impact, of approximately RMB34 million (for the six months ended 30 June 2014: increase, net of tax impact, of approximately RMB267 million) were recorded in the unaudited condensed consolidated interim statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

## 8. OTHER ASSETS

| | Note | 30 June 2015 | 31 December 2014 |
|---|---|---|---|
| Purchased software | | **8,506** | 9,100 |
| Prepaid rental for premises, leased lines and electricity cables | | **6,536** | 6,927 |
| Installation costs | | **574** | 663 |
| Direct incremental costs for activating broadband subscribers | | **5,248** | 3,762 |
| Others | (i) | **2,494** | 2,589 |
| | | **23,358** | 23,041 |

(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 2015 | 31 December 2014 |
|---|---|---|
| Handsets and other customer end products | **5,005** | 3,656 |
| Telephone cards | **235** | 237 |
| Consumables | **328** | 350 |
| Others | **163** | 135 |
| | **5,731** | 4,378 |

## 10. ACCOUNTS RECEIVABLE

| | 30 June 2015 | 31 December 2014 |
|---|---|---|
| Accounts receivable | **24,555** | 19,135 |
| Less: Allowance for doubtful debts | **(6,357)** | (4,464) |
| | **18,198** | 14,671 |

The aging analysis of accounts receivable is as follows:

| | 30 June 2015 | 31 December 2014 |
|---|---|---|
| Current and within one month | **12,977** | 11,447 |
| More than one month to three months | **2,199** | 1,738 |
| More than three months to one year | **4,338** | 3,258 |
| More than one year | **5,041** | 2,692 |
| | **24,555** | 19,135 |

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 customers receivables, as the Group has a large number of customers.

(All amounts in RMB millions unless otherwise stated)

## 11. PREPAYMENTS AND OTHER CURRENT ASSETS

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

| | Note | **30 June 2015** | 31 December 2014 |
|---|---|---|---|
| Receivable for the sales of mobile handsets | (i) | **2,662** | 2,846 |
| Prepaid rental | | **2,770** | 2,639 |
| Deposits and prepayments | | **1,954** | 1,857 |
| Advances to employees | | **61** | 161 |
| Value-added tax recoverable | (ii) | **3,065** | 920 |
| Prepaid enterprise income tax | | **35** | 342 |
| Others | | **1,011** | 1,264 |
| | | **11,558** | 10,029 |

(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 handsets based on their relative fair values. For those contractual preferential packages with guarantees by third parties, the revenue relating to the sale of the handsets 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 handsets. The receivable for the sales of mobile handsets 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 RMB967 million (31 December 2014: RMB1,195 million), and are included in long term other assets (see Note 8(i)).

(ii) Pursuant to the Cai Shui [2014] No. 43 issued by Ministry of Finance ("MOF") and State of Administration of Taxation ("SAT") of the PRC, pilot programme regarding the replacement of business tax with value-added tax ("VAT") could be implemented nationwide for the telecommunications industry from 1 June 2014 (see Note 20). VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

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

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| Within one year | **11,326** | 9,866 |
| More than one year | **232** | 163 |
| | **11,558** | 10,029 |

As at 30 June 2015, there was no significant impairment for the prepayments and other current assets.

(All amounts in RMB millions unless otherwise stated)

## 12. SHARE CAPITAL

| Issued and fully paid: | Number of shares millions | Share capital | Share premium | Capital redemption reserve | Total |
|---|---|---|---|---|---|
| **At 1 January 2014** | 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) | 163 | 1,471 | – | – | 1,471 |
| **At 31 December 2014** | 23,947 | 179,101 | – | – | 179,101 |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 28) | **–** | **1** | **–** | **–** | **1** |
| **At 30 June 2015** | **23,947** | **179,102** | **–** | **–** | **179,102** |

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance (Cap. 622) occurred automatically on 3 March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap 622). These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the new Hong Kong Companies Ordinance (Cap 622).

## 13. LONG-TERM BANK LOANS

| | Interest rates and final maturity | 30 June 2015 | 31 December 2014 |
|---|---|---|---|
| USD denominated bank loans | Fixed interest rates ranging from Nil to 5.00% (31 December 2014: Nil to 5.00%) per annum with maturity through 2039 (31 December 2014: maturity through 2039) | **318** | 330 |
| Euro denominated bank loans | Fixed interest rates ranging from 1.10% to 2.50% (31 December 2014: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2014: maturity through 2034) | **114** | 135 |
| Sub-total | | **432** | 465 |
| Less: Current portion | | **(43)** | (45) |
| | | **389** | 420 |

(All amounts in RMB millions unless otherwise stated)

## 13. LONG-TERM BANK LOANS (CONTINUED)

As at 30 June 2015, long-term bank loans of approximately RMB87 million (31 December 2014: approximately RMB90 million) were guaranteed by third parties.

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

| | 30 June 2015 | 31 December 2014 |
|---|---|---|
| Balances due: | | |
| – not later than one year | 43 | 45 |
| – later than one year and not later than two years | 40 | 41 |
| – later than two years and not later than five years | 130 | 136 |
| – later than five years | 219 | 243 |
| | 432 | 465 |
| Less: Portion classified as current liabilities | (43) | (45) |
| | 389 | 420 |

## 14. PROMISSORY NOTES

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 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. On 24 July 2014, the Company completed the issue of notes in an aggregate nominal amount of RMB2.5 billion with a maturity period of 2 years and at an interest rate of 3.80% per annum.

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 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 28 November 2014, CUCL issued tranche three 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 4.20% per annum.

On 15 June 2015, CUCL issued tranche one of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum.

On 18 June 2015, CUCL issued tranche two of 2015 promissory notes in an amount of RMB4 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.85% per annum.

(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 HKD14.75 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 2015 and 2014, 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 statement of financial position are calculated as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Movement of liability component: | | |
| Beginning of period | **11,167** | 11,002 |
| Less: interest paid | **(42)** | (42) |
| Add: effect of exchange (gain)/loss on liability component | **(10)** | 101 |
| Add: imputed finance cost | **105** | 104 |
| End of period | **11,220** | 11,165 |

The liability component of the convertible bonds at 30 June 2015 amounted to approximately USD1,835 million (equivalent to RMB11,220 million) (31 December 2014: approximately USD1,825 million, equivalent to RMB11,167 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.

(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 2015 | 31 December 2014 |
|---|---|---|---|
| RMB denominated bank loans | Fixed interest rates ranging from 3.37% to 5.04% (31 December 2014: 3.62% to 5.32%) per annum with maturity through 2015 or 2016 (31 December 2014 maturity through 2015) | **48,161** | 42,525 |
| HKD denominated bank loans | Floating interest rates of HIBOR plus interest margin from 1.15% to 2.10% (31 December 2014: 0.70% to 2.10%) per annum with maturity through 2015 (31 December 2014: maturity through 2015) | **26,830** | 48,978 |
| | | **74,991** | 91,503 |

## 18. COMMERCIAL PAPERS

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 19 March 2015, CUCL issued tranche one of 2015 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 4.40% per annum.

(All amounts in RMB millions unless otherwise stated)

## 19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 30 June 2015 | 31 December 2014 |
|---|---|---|
| Payables to contractors and equipment suppliers | **76,732** | 85,699 |
| Payables to telecommunications products suppliers | **4,771** | 6,076 |
| Customer/contractor deposits | **4,216** | 4,129 |
| Repair and maintenance expense payables | **4,571** | 3,780 |
| Salary and welfare payables | **4,773** | 4,565 |
| Interest payables | **1,171** | 747 |
| Amounts due to service providers/content providers | **1,259** | 1,257 |
| Accrued expenses | **12,079** | 10,636 |
| Others | **3,522** | 3,482 |
| | **113,094** | 120,371 |

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

| | 30 June 2015 | 31 December 2014 |
|---|---|---|
| Less than six months | **92,527** | 104,334 |
| Six months to one year | **11,093** | 6,867 |
| More than one year | **9,474** | 9,170 |
| | **113,094** | 120,371 |

(All amounts in RMB millions unless otherwise stated)

## 20. REVENUE

Before 1 June 2014, service revenue and revenue from bundle sales of mobile handsets were subject to a business tax rate of 3%-5% while standalone sales of telecommunications products were subject to VAT of 17%. Relevant tax was set off against revenue.

The MOF and SAT of the PRC 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 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 sales 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.

The major components of revenue are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Mobile business | | |
| – Usage and monthly fees | **24,535** | 34,975 |
| – Value-added services revenue | **42,450** | 39,353 |
| – Interconnection fees | **5,933** | 6,409 |
| – Other mobile business service revenue | **546** | 606 |
| Total service revenue from mobile business | **73,464** | 81,343 |
| Fixed-line business | | |
| – Usage and monthly fees | **5,780** | 7,919 |
| – Broadband, data and other Internet-related services revenue | **28,258** | 26,066 |
| – Interconnection fees | **1,814** | 1,992 |
| – Value-added services revenue | **2,600** | 1,988 |
| – Leased line income | **4,834** | 4,686 |
| – Information communications technology services revenue | **2,443** | 2,055 |
| – Other fixed-line business service revenue | **458** | 501 |
| Total service revenue from fixed-line business | **46,187** | 45,207 |
| Other service revenue | **616** | 423 |
| Total service revenue | **120,267** | 126,973 |
| Sales of telecommunications products | **24,418** | 22,596 |
| | **144,685** | 149,569 |

(All amounts in RMB millions unless otherwise stated)

## 21. NETWORK, OPERATION AND SUPPORT EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Repairs and maintenance | **6,220** | 6,055 |
| Power and water charges | **6,325** | 6,349 |
| Operating lease charges for network, premises, equipment and facilities | **5,868** | 4,912 |
| Others | **741** | 719 |
| | **19,154** | 18,035 |

## 22. EMPLOYEE BENEFIT EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Salaries and wages | **14,090** | 13,416 |
| Contributions to defined contribution pension schemes | **1,921** | 1,787 |
| Contributions to medical insurance | **810** | 739 |
| Contributions to housing fund | **1,095** | 1,017 |
| Other housing benefits | **9** | 10 |
| | **17,925** | 16,969 |

## 23. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Handsets and other customer end products | **24,840** | 25,290 |
| Telephone cards | **163** | 337 |
| Others | **77** | 55 |
| | **25,080** | 25,682 |

(All amounts in RMB millions unless otherwise stated)

## 24. OTHER OPERATING EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Impairment losses for doubtful debts and write-down of inventories | **2,373** | 2,088 |
| Cost in relation to information communications technology services | **2,176** | 1,846 |
| Commission expenses | **10,071** | 15,728 |
| Customer acquisition cost and advertising and promotion expenses | **1,401** | 3,481 |
| Amortised customer installation cost | **1,848** | 2,147 |
| Customer retention cost | **1,313** | 2,468 |
| Property management fee | **1,114** | 1,122 |
| Office and administrative expenses | **883** | 904 |
| Transportation expense | **828** | 951 |
| Miscellaneous taxes and fees | **464** | 421 |
| Technical support expenses | **752** | 616 |
| Repairs and maintenance expenses | **386** | 419 |
| Others | **1,895** | 1,438 |
| | **25,504** | 33,629 |

## 25. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Finance costs: | | |
| – Interest on bank loans repayable within 5 years | **1,581** | 1,884 |
| – Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years | **907** | 645 |
| – Interest on convertible bonds repayable within 5 years | **105** | 104 |
| – Interest on related party loans repayable within 5 years | **33** | 31 |
| – Interest on bank loans repayable over 5 years | **2** | 2 |
| – Less: Amounts capitalised in CIP | **(404)** | (454) |
| Total interest expense | **2,224** | 2,212 |
| – Exchange loss, net | **855** | 358 |
| – Others | **151** | 139 |
| | **3,230** | 2,709 |

(All amounts in RMB millions unless otherwise stated)

## 26. OTHER INCOME – NET

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Dividend income from financial assets at fair value through other comprehensive income | **180** | 220 |
| Others | **361** | 384 |
| | **541** | 604 |

## 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 2015, the related financial assets at fair value through other comprehensive income amounted to approximately RMB5,624 million (31 December 2014: approximately RMB5,706 million). For the six months ended 30 June 2015, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB82 million (for the six months ended 30 June 2014: increase of approximately RMB348 million). The decrease, net of tax impact, of approximately RMB62 million (for the six months ended 30 June 2014: increase, net of tax, of approximately RMB260 million) has been recorded in the unaudited condensed consolidated interim statement of comprehensive income.

## 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.

On 16 April 2014, the Company adopted a new share option scheme ("the 2014 Share Option Scheme"). 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. No share options had been granted since adoption of the 2014 Share Option Scheme.

(All amounts in RMB millions unless otherwise stated)

## 28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2015** | | 2014 | |
| | **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 | **6.35** | **3,540,000** | 6.61 | 174,498,077 |
| Lapsed | **6.35** | **(3,432,000)** | – | – |
| Exercised | **6.35** | **(108,000)** | 6.55 | (58,858,435) |
| Balance, end of period | **–** | **–** | 6.64 | 115,639,642 |

Exercise of share options during the six months ended 30 June 2015 resulted in 108,000 shares being issued (six months ended 30 June 2014: 58,858,435 shares), with exercise proceeds of approximately RMB1 million (six months ended 30 June 2014: approximately RMB307 million).

Details of share options of the Company exercised during the six months ended 30 June 2015 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 |
|---|---|---|---|---|
| 15 February 2006 | **6.35** | **12.88** | **685,800** | **108,000** |
| | | | **685,800** | **108,000** |

As at 30 June 2015, no outstanding share options were exercisable (31 December 2014: 3,540,000 outstanding share options were exercisable and the weighted average exercise price was HKD6.35).

(All amounts in RMB millions unless otherwise stated)

## 28. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

As at statement of financial position 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 2015 | Number of share options outstanding as at 31 December 2014 |
|---|---|---|---|---|---|
| **Share options granted under the Share Option Scheme:** | | | | | |
| 15 February 2006 | 15 February 2006 to 15 February 2009 | 15 February 2008 to 14 February 2015 | HKD6.35 | – | 3,540,000 |
| | | | | – | 3,540,000 |

Note i: 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 the 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 the Share Option Scheme.

## 29. DIVIDENDS

At the annual general meeting held on 8 May 2015, the shareholders of the Company approved the payment of a final dividend of RMB0.20 per ordinary share for the year ended 31 December 2014 totaling approximately RMB4,789 million (for the year ended 31 December 2013: final dividend of RMB0.16 per ordinary share, totaling approximately RMB3,806 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2015. Among the dividend payable of approximately RMB920 million was due to Unicom BVI as at 30 June 2015.

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 SAT of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2015, 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 financial information for the undistributed profits of the Company's subsidiaries in the PRC.

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

## 30. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2015 and 2014 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 2015 and 2014 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 2015 arose from the convertible bonds. All dilutive potential ordinary shares for the six months ended 30 June 2014 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 | |
|---|---|---|
| | **2015** | 2014 |
| Numerator (in RMB millions): | | |
| Profit attributable to equity shareholders of the Company used in computing basic earnings per share | **6,990** | 6,689 |
| Imputed finance cost on the liability component of convertible bonds | **105** | 104 |
| Profit attributable to equity shareholders of the Company used in computing diluted earnings per share | **7,095** | 6,793 |
| Denominator (in millions): | | |
| Weighted average number of ordinary shares outstanding used in computing basic earnings per share | **23,947** | 23,800 |
| Dilutive equivalent shares arising from share options | **–** | 45 |
| Dilutive equivalent shares arising from convertible bonds | **953** | 935 |
| Shares used in computing diluted earnings per share | **24,900** | 24,780 |
| Basic earnings per share (in RMB) | **0.29** | 0.28 |
| Diluted earnings per share (in RMB) | **0.28** | 0.27 |

## 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.

(All amounts in RMB millions unless otherwise stated)

# 31. FAIR VALUE ESTIMATION (CONTINUED)

## (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 valuations: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: 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 valuations: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 30 June 2015:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Recurring fair value measurement:** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| – Equity securities | | | | |
| – Listed | **5,834** | **–** | **–** | **5,834** |
| – Unlisted | **–** | **–** | **22** | **22** |
| | **5,834** | **–** | **22** | **5,856** |
| Other assets | | | | |
| – Equity securities | | | | |
| – Unlisted | **–** | **–** | **35** | **35** |
| Total | **5,834** | **–** | **57** | **5,891** |

The following table presents the Group's assets that are measured at fair value at 31 December 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Recurring fair value measurement:** | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| – Equity securities | | | | |
| – Listed | 5,879 | – | – | 5,879 |
| – Unlisted | – | – | 23 | 23 |
| | 5,879 | – | 23 | 5,902 |
| Prepayments and other current assets | | | | |
| – Equity securities | | | | |
| – Listed | 13 | – | – | 13 |
| Total | 5,892 | – | 23 | 5,915 |

(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 statement of financial position 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 2015 and 2014, there was no transfer between Level 1 and Level 2, or transfer into or out of Level 3. 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 2015 and 31 December 2014. Their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

| | **Carrying amounts as at 30 June 2015** | **Fair values as at 30 June 2015** | **Fair value measurements as at 30 June 2015 categorised into** | | | Carrying amounts as at 31 December 2014 | Fair value as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** | | |
| Non-current portion of long-term bank loans | **389** | **354** | **–** | **–** | **354** | 420 | 392 |
| Promissory notes | **29,444** | **30,189** | **–** | **–** | **30,189** | 21,460 | 21,924 |
| Convertible bonds | **11,220** | **11,220** | **–** | **–** | **11,220** | 11,167 | 11,183 |
| Corporate bonds | **2,000** | **2,051** | **–** | **–** | **2,051** | 2,000 | 2,045 |

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 2.42% to 3.65% (31 December 2014: 2.34% to 3.23%) per annum.

The fair value of the Group's promissory notes at 30 June 2015 is computed based on the expected cash flows of principal and interests payment discounted at market rates ranging from 3.82% to 4.23% (31 December 2014: 4.04% to 4.60%) 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 2015 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 3.26% (31 December 2014: 4.60%) 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 2015 and 31 December 2014 due to the nature or short maturity of those instruments.

(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 | |
|---|---|---|
| | **2015** | 2014 |
| **Transactions with Unicom Group and its subsidiaries:** | | |
| Charges for value-added telecommunications services | **22** | 23 |
| Rental charges for property leasing | **463** | 473 |
| Charges for lease of telecommunications resources | **136** | 136 |
| Charges for engineering design and construction services | **1,363** | 649 |
| Charges for shared services | **53** | 63 |
| Charges for equipment procurement services | **38** | 31 |
| Charges for ancillary telecommunications services | **1,231** | 1,049 |
| Charges for comprehensive support services | **570** | 184 |
| Income from comprehensive support services | **3** | 10 |

On 24 October 2013, CUCL entered into the new agreement, "2013 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 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.

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

Amount due to Unicom Group's subsidiary as at 31 December 2014 included the short-term unsecured loans from Unicom Group BVI of HKD600 million (equivalent to RMB473 million) with interest rate at HIBOR plus 2.30% per annum. The loan was fully repaid in May 2015.

Amount due to Unicom Group as at 31 December 2014 included the unsecured entrusted loan of RMB1,344 million with interest rate at 5.40% per annum. The loan was fully repaid in June 2015.

In addition, amounts due to Unicom Group as at 31 December 2014 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million. The consideration was fully paid in January 2015.

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.

#### (c) Commitments to related parties

As at 30 June 2015 and 31 December 2014, 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 2015** | 31 December 2014 |
|---|---|---|
| Unicom Group and its subsidiaries | **916** | 930 |

(All amounts in RMB millions unless otherwise stated)

# 33. CONTINGENCIES AND COMMITMENTS

## 33.1 Capital commitments

As at 30 June 2015 and 31 December 2014, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

| | 30 June 2015 | | | 31 December 2014 |
|---|---|---|---|---|
| | **Land and buildings** | **Equipment** | **Total** | Total |
| Authorised and contracted for | **–** | **18,232** | **18,232** | 18,803 |
| Authorised but not contracted for | **15,549** | **25,471** | **41,020** | 33,202 |
| | **15,549** | **43,703** | **59,252** | 52,005 |

## 33.2 Operating lease commitments

As at 30 June 2015 and 31 December 2014, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

| | 30 June 2015 | | | 31 December 2014 |
|---|---|---|---|---|
| | **Land and buildings** | **Equipment** | **Total** | Total |
| Leases expiring: | | | | |
| – not later than one year | **2,836** | **590** | **3,426** | 4,332 |
| – later than one year and not later than five years | **5,013** | **1,234** | **6,247** | 7,329 |
| – later than five years | **1,797** | **133** | **1,930** | 2,287 |
| | **9,646** | **1,957** | **11,603** | 13,948 |

## 33.3 Contingent liabilities

As at 30 June 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

# 34. APPROVAL OF FINANCIAL INFORMATION

This unaudited condensed consolidated interim financial information was approved by the Board of Directors on 21 August 2015.

# 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 8 to 39 which comprises the unaudited condensed consolidated interim statement of financial position of China Unicom (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2015 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 2015 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
21 August 2015

# 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 (if applicable);

    (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 the Share Option Scheme has expired, 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.

During the six months ended 30 June 2015, 108,000 share options granted under the Share Option Scheme were exercised and 3,432,000 share options granted under the Share Option Scheme were lapsed, in both cases at the exercise price of HKD6.35 for each option granted under the Share Option Scheme.

As at 30 June 2015, no share options had been granted and remained valid under the Share Option Scheme.

## 2. 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 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.

## 3. INTEREST OF DIRECTORS, CHIEF EXECUTIVES AND EMPLOYEES UNDER THE SHARE OPTION SCHEMES OF THE COMPANY

During the six month ended and as at 30 June 2015, none of the Directors and the chief executive of the Company had any interests under any share option schemes of the Company.

Details of interest of employees under the Share Option Scheme are as follows:

| | |
|---|---|
| Number of options outstanding as at 1 January 2015 | 3,540,000 |
| Movement during the period | |
| Exercised | (108,000) |
| Lapsed | (3,432,000) |
| Number of options outstanding as at 30 June 2015 | – |

Notes:

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

2. Particulars of share options granted under the Share Option Scheme are as follows:

| Date of Grant | Exercise Price (HKD) | Exercise Period* |
|---|---|---|
| 15 February 2006 | 6.35 | 15 February 2008 to 14 February 2015 (in respect of 50% of the options granted)<br>15 February 2009 to 14 February 2015 (in respect of the remaining 50% of the options granted) |

* 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 the 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 the Share Option Scheme.

3. Details of share options exercised during the six months ended 30 June 2015 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 |
|---|---|---|---|---|
| 15 February 2006 | 6.35 | 12.88 | 685,800 | 108,000 |

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

As at 30 June 2015, 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) | 200,000 | 0.0008% |
| Chung Shui Ming Timpson | Beneficial owner (Personal) | 6,000 | 0.0000% |

Apart from those disclosed herein, at no time during the six months ended 30 June 2015 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 2015, 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 2015:

| | Ordinary Shares Held | | Percentage of |
|---|---|---|---|
| | Directly | Indirectly | Issued Shares |
| (i) China United Network Communications Group Company Limited ("Unicom Group")[1,2] | – | 18,032,853,047 | 75.30% |
| (ii) China United Network Communications Limited ("Unicom A Share Company")[1] | – | 9,725,000,020 | 40.61% |
| (iii) China Unicom (BVI) Limited ("Unicom BVI")[1] | 9,725,000,020 | – | 40.61% |
| (iv) China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI")[2,3] | 8,082,130,236 | 225,722,791 | 34.69% |

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 33.75% 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 0.94% of the issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 30 June 2015, 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 2015 will be paid.

## CHARGE ON ASSETS

As at 30 June 2015, no property, plant and equipment was pledged to banks as loan security (31 December 2014: Nil).

## REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the six months ended 30 June 2015, 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 Chief Executive Officer)*
Lu Yimin
Li Fushen
Zhang Junan

### NON-EXECUTIVE DIRECTOR:

Cesareo Alierta Izuel

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Cheung Wing Lam Linus
Wong Wai Ming
Chung Shui Ming Timpson
Cai Hongbin
Law Fan Chiu Fun Fanny
John Lawson Thornton (resigned on 4 March 2015)

## CHANGES OF DIRECTORS' INFORMATION

Below are certain changes to the information of our Directors since the publication of the Company's 2014 annual report:

- Mr. Zhang Junan is appointed as a Director of China United Network Communications Group Company Limited.
- Mr. Cesareo Alierta Izuel is appointed as a member of the Board of trustees of the Caixa d'Estalvis i Pensions de Barcelona "la Caixa" Banking Foundation.

## AUDIT COMMITTEE

The Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, 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.

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 2015.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming, 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 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 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 2015 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 2015, 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.

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 2014. The management's assessment report was included in the Company's annual report on Form 20-F for the year ended 31 December 2014 ("Form 20-F"), as filed with the United States Securities and Exchange Commission on 23 April 2015.

## 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 2014 Annual Report.

# EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2015, the Group had approximately 222,800 employees, 280 employees and 100 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 47,540 temporary staff in Mainland China. For the six months ended 30 June 2015, employee benefit expenses were approximately RMB17.925 billion (for the six months ended 30 June 2014: RMB16.969 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 (i) the Company's plans and strategies and the ability to successfully execute these plans and strategies, including those in connection with mergers and acquisitions and capital expenditures; (ii) the Company's plans for network expansion, including those in connection with the build-out of mobile broadband services, which consisted of third generation mobile telecommunications, or 3G, and fourth generation mobile telecommunications, or 4G, digital cellular businesses, and network infrastructures; (iii) the Company's competitive position, including the ability to upgrade and expand existing networks and increase network efficiency, to improve existing services and offer new services, to develop new technological applications and to leverage the Company's position as an integrated telecommunications operator and expand into new businesses and markets; (iv) the Company's future business condition, including future financial results, cash flows, financing plans and dividends; (v) the future growth of market demand of, and opportunities for, the Company's new and existing products and services, in particular, mobile broadband services; and (vi) future regulatory and other developments in the PRC telecommunications industry.

The words "anticipate", "believe", "could", "estimate", "intend", "may", "seek", "will" and similar expressions, as they relate to 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 licenses for telecommunications services by the central government of the PRC;

- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services, in particular, mobile broadband 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 restructuring and integration (if any) in the PRC telecommunications industry and any cooperation among the PRC telecommunications operators;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;
- changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans;
- effects of the imposition of and changes in value-added tax relating to the PRC telecommunications business;
- effects of any 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; 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 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, 21 August 2015