NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of voice usage, broadband and mobile data services, data and internet application services, other value-added services, transmission lines usage and associated services and sales of telecommunications products in the PRC. 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 ("SEHK") on 22 June 2000 and the American Depositary Shares ("ADSs") of the Company were listed on the New York Stock Exchange ("NYSE") on 21 June 2000. The NYSE filed Form 25 with the United States Securities and Exchange Commission on 7 May 2021 and the delisting of the Company's ADSs has taken effective on 18 May 2021. The Company's reporting obligation under the Securities Exchange Act of 1934, as amended was suspended since 28 May 2021.

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 (hereinafter referred to as "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 directors of the Company consider Unicom BVI and China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group") as the immediate holding company and ultimate holding company, respectively.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have 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 these unaudited condensed consolidated interim financial statements are also prepared in accordance with HKAS 34.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have not been audited, but has been reviewed by the Company's Audit Committee. It has also been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020. 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 2020 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2021.

2. BASIS OF PREPARATION (Continued)

The financial information relating to the year ended 31 December 2020 that is included in this unaudited condensed consolidated interim financial statements of 2021 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the 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 sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

(a) Going Concern Assumption

As at 30 June 2021, current liabilities of the Group exceeded current assets by approximately RMB94.1 billion (31 December 2020: approximately RMB113.4 billion). Considering the current economic conditions and taking into account of 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 RMB247.6 billion of revolving banking facilities of which approximately RMB235.4 billion was unutilised as at 30 June 2021; and
- Other available sources of financing from domestic banks and other financial institutions in view of the Group's good credit history.

In addition, the Group believes that 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 commitments, expected capital expenditure and debt obligations. As a result, the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021 have been prepared on a going concern basis.

(All amounts in RMB millions unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Other than the changes in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”)/Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

The IASB and HKICPA have issued the following amendments to IFRSs/HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS/HKFRS 9, IAS/HKAS 39, IFRS/HKFRS 7, IFRS/HKFRS 4 and IFRS/HKFRS 16, “Interest Rate Benchmark Reform— Phase 2 “

The amendments have had no material effect on how the Group’s results and financial positions for the current or prior periods have been prepared or presented in this unaudited condensed consolidated interim financial statements.

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 makes resources allocation decisions based on internal management functions and assesses 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 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. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and VAT rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 9%, the VAT rate for value-added telecommunications services is 6% and the VAT rate for sales of telecommunications products is 13%. Basic telecommunications services include business activities for the provision of voice services, and transmission lines usage and associated services etc. Value-added telecommunications services include business activities for the provision of short message service and multimedia message service, broadband and mobile data services, and data and internet application services etc. VAT is excluded from the revenue.

Disaggregation of revenue by major services and products:

	Six months ended 30 June	
	2021	2020
Voice usage and monthly fees	**11,247**	11,441
Broadband and mobile data services	**77,533**	75,355
Data and internet application services	**31,110**	25,410
Other value-added services	**11,508**	10,111
Interconnection fees	**6,266**	5,808
Transmission lines usage and associated services	**8,859**	8,141
Other services	**2,151**	2,069
Total service revenue	**148,674**	138,335
Sales of telecommunications products	**15,500**	12,062
Total	**164,174**	150,397
Include: Revenue from contracts with customers within the scope of IFRS/HKFRS 15, "Revenue from Contracts with Customers"	**163,583**	149,896
Revenue from other sources	**591**	501

(All amounts in RMB millions unless otherwise stated)

6. NETWORK, OPERATION AND SUPPORT EXPENSES

		Six months ended 30 June	
	Notes	**2021**	2020
Repairs and maintenance		**5,520**	4,744
Power and water charges		**6,687**	6,174
Charges for use of network, premises, equipment and facilities	(i)	**6,391**	4,808
Charges for use of tower assets	(ii)	**5,429**	5,452
Others		**1,080**	1,042
		25,107	22,220

(i) During the six months ended 30 June 2021 and 2020, charges for use of network, premises, equipment and facilities mainly included the non-lease components charges and charges relating to short-term leases, leases of low-value assets and variable lease payments which are recorded in profit or loss as incurred.

(ii) During the six months ended 30 June 2021 and 2020, charges for use of tower assets included the non-lease components charges (maintenance service, certain ancillary facilities usage and other related support services charges) and variable lease payments which are recorded in profit or loss as incurred.

7. EMPLOYEE BENEFIT EXPENSES

		Six months ended 30 June	
	Note	**2021**	2020
Salaries and wages		**24,198**	22,116
Contributions to defined contribution pension schemes		**3,602**	2,537
Contributions to medical insurance		**1,343**	937
Contributions to housing fund		**1,762**	1,685
Other housing benefits		**8**	7
Share-based compensation	33	**78**	221
		30,991	27,503

(All amounts in RMB millions unless otherwise stated)

8. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	Six months ended 30 June	
	2021	2020
Handsets and other telecommunications products	**14,559**	11,501
Others	**249**	102
	14,808	11,603

9. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
Impairment losses under expected credit loss model, net of reversal	**2,699**	2,732
Write-down of inventories and impairment losses of other assets	**203**	240
Commission and other service expenses	**11,568**	10,330
Advertising and promotion expenses	**1,061**	1,013
Internet access terminal maintenance expenses	**874**	1,427
Customer retention costs	**1,522**	1,428
Property management fee	**1,241**	1,066
Office and administrative expenses	**624**	423
Transportation expense	**645**	638
Miscellaneous taxes and fees	**662**	670
Service technical support expenses	**13,643**	11,009
Repairs and maintenance expenses	**250**	242
Loss on disposal of property, plant and equipment	**1,479**	1,279
Others	**2,061**	2,028
	38,532	34,525

(All amounts in RMB millions unless otherwise stated)

10. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
Finance costs:		
— Interest on bank loans repayable within 5 years	33	70
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	76	170
— Interest on lease liabilities	515	618
— Interest on related party loans repayable within 5 years	44	66
— Interest on bank loans repayable over 5 years	14	20
— Less: Amount capitalised in construction-in-progress (“CIP”)	(84)	(122)
Total interest expense	598	822
— Net exchange loss/(gain)	5	(9)
— Others	42	46
	645	859

11. OTHER INCOME — NET

	Six months ended 30 June	
	2021	2020
Dividend from financial assets measured at FVOCI (non-recycling)	101	98
Investment income from debt securities measured at FVOCI (recycling)	403	1
Fair value gains on financial assets measured at fair value through profit or loss (“FVPL”)	49	7
Government grants	177	155
Others	799	523
	1,529	784

(All amounts in RMB millions unless otherwise stated)

12. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2020: 16.5%) on the estimated assessable profits for the six months ended 30 June 2021. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2021 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 2020: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2020: 15%).

	Six months ended 30 June	
	2021	2020
Provision for income tax on estimated taxable profits for the period		
— Hong Kong	**33**	40
— Mainland China and other countries	**2,910**	2,290
(Over)/under-provision in respect of prior years	**(67)**	15
	2,876	2,345
Deferred taxation	**(795)**	(207)
Income tax expense	**2,081**	2,138

Reconciliation between actual income tax expense and accounting profit at PRC statutory tax rate:

		Six months ended 30 June	
	Notes	**2021**	2020
Profit before income tax		**11,289**	9,736
Expected income tax expense at PRC statutory tax rate of 25%		**2,822**	2,434
Impact of different tax rate outside Mainland China		**(17)**	(20)
Tax effect of preferential tax rate	(i)	**(126)**	(127)
Additional deduction for qualified research and development costs	(i)	**(207)**	(128)
Tax effect of non-deductible expenses		**182**	168
Tax effect of non-taxable income from share of net profit of joint ventures		**(180)**	(65)
Tax effect of non-taxable income from share of net profit of associates	(ii)	**(243)**	(149)
(Over)/under-provision in respect of prior years		**(67)**	15
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	**(83)**	10
Actual tax expense		**2,081**	2,138

(All amounts in RMB millions unless otherwise stated)

12. TAXATION (Continued)

(i) According to the PRC enterprise income tax law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15% (for the six months ended 30 June 2020: 15%). Certain subsidiaries of the Group obtained the approval of High and New Technology Enterprise and were entitled to a preferential income tax rate of 15% (for the six months ended 30 June 2020: 15%), and certain research and development costs of the Group's PRC subsidiaries are qualified for 75% (for the six months ended 30 June 2020: 75%) additional deduction for tax purpose.

(ii) Adjustment to investment in associates represents the tax effect on share of net profit of associates, net of reversal of deferred tax assets on unrealised profit from transactions with China Tower Corporation Limited ("Tower Company").

(iii) As at 30 June 2021, the Group did not recognise deferred tax assets of approximately RMB98 million (31 December 2020: approximately RMB181 million) in respect of tax losses amounting to approximately RMB392 million (31 December 2020: approximately RMB726 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired by the year of 2026.

As at 30 June 2021, the Group did not recognise deferred tax assets of RMB2,380 million (31 December 2020: RMB2,448 million) in respect of changes in fair value on financial assets measured at FVOCI (non-recycling), since it is not probable that the related tax benefit will be realised.

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

	Six months ended 30 June	
	2021	2020
Net deferred tax assets after offsetting:		
— Balance at 1 January 2021 and 2020	**745**	1,226
— Deferred tax credited to the statement of income	**792**	207
— Deferred tax credited to other comprehensive income	**—**	3
— Balance at 30 June 2021 and 2020	**1,537**	1,436
Net deferred tax liabilities after offsetting:		
— Balance at 1 January 2021 and 2020	**(64)**	(87)
— Deferred tax credited to the statement of income	**3**	—
— Deferred tax charged to other comprehensive income	**(2)**	—
— Balance at 30 June 2021 and 2020	**(63)**	(87)

13. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2021 and 2020 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 2021 and 2020 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. No dilutive potential ordinary shares existed for the six months ended 30 June 2021 and 2020.

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

	Six months ended 30 June	
	2021	2020
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	**9,167**	7,569
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic/diluted earnings per share	**30,598**	30,598
Basic/Diluted earnings per share (in RMB)	**0.30**	0.25

(All amounts in RMB millions unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2021 and 2020 are as follows:

	Six months ended 30 June 2021					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	76,658	841,394	20,255	3,701	48,251	990,259
Additions	9	145	106	101	14,406	14,767
Transfer from CIP	301	21,431	331	52	(22,115)	—
Transfer to other assets	—	—	—	—	(2,148)	(2,148)
Disposals	(84)	(57,861)	(373)	(241)	—	(58,559)
End of period	76,884	805,109	20,319	3,613	38,394	944,319
Accumulated depreciation and impairment:						
Beginning of period	(39,243)	(568,173)	(15,641)	(2,908)	(107)	(626,072)
Charge for the period	(1,325)	(31,063)	(590)	(186)	(4)	(33,168)
Disposals	40	56,192	342	237	—	56,811
End of period	(40,528)	(543,044)	(15,889)	(2,857)	(111)	(602,429)
Net book value:						
End of period	36,356	262,065	4,430	756	38,283	341,890
Beginning of period	37,415	273,221	4,614	793	48,144	364,187

(All amounts in RMB millions unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Six months ended 30 June 2020					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of period	75,160	833,423	20,092	3,728	54,261	986,664
Additions	24	261	93	141	24,994	25,513
Transfer from CIP	380	25,348	420	63	(26,211)	–
Transfer to other assets	–	–	–	–	(1,595)	(1,595)
Disposals	(69)	(39,072)	(247)	(216)	–	(39,604)
End of period	75,495	819,960	20,358	3,716	51,449	970,978
Accumulated depreciation and impairment:						
Beginning of period	(36,840)	(563,735)	(15,658)	(2,919)	(111)	(619,263)
Charge for the period	(1,349)	(29,548)	(601)	(205)	–	(31,703)
Disposals	50	37,204	232	215	–	37,701
End of period	(38,139)	(556,079)	(16,027)	(2,909)	(111)	(613,265)
Net book value:						
End of period	37,356	263,881	4,331	807	51,338	357,713
Beginning of period	38,320	269,688	4,434	809	54,150	367,401

15. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021, the Group entered into a number of lease agreements for use of buildings, telecommunications equipment and land use rights, and therefore recognised the additions to right-of-use assets of RMB3,986 million (for the six months ended 30 June 2020: RMB3,644 million).

(All amounts in RMB millions unless otherwise stated)

16. FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Notes	30 June 2021	31 December 2020
Non-current portion:			
Equity securities measured at FVOCI (non-recycling)	(i)	2,122	1,838
Financial assets measured at FVPL	(ii)	976	934
Debt securities measured at FVOCI (recycling)	(iii)	914	721
		4,012	3,493
Current portion:			
Financial assets measured at FVPL	(ii)	2,455	1,560
Debt securities measured at FVOCI (recycling)	(iii)	30,984	22,629
		33,439	24,189
		37,451	27,682

(i) Equity securities measured at FVOCI (non-recycling):

	Note	30 June 2021	31 December 2020
Listed in the PRC		125	114
Listed outside the PRC	31	1,945	1,672
Unlisted		52	52
		2,122	1,838

(ii) Financial assets measured at FVPL represent certain equity investments, investments in monetary funds and wealth management products.

(iii) Debt securities measured at FVOCI (recycling) represent certain debt investments issued by banks and the investments held within a business model whose objective is achieved by both the collection of contractual cash flows and sale.

(All amounts in RMB millions unless otherwise stated)

17. SHORT-TERM BANK DEPOSITS AND RESTRICTED DEPOSITS

	30 June 2021	31 December 2020
Short-term bank deposits	**1,110**	6,900
Restricted deposits	**4,706**	5,089
	5,816	11,989

18. OTHER ASSETS

	Note	30 June 2021	31 December 2020
Intangible assets		**10,961**	10,974
Prepaid services charges for transmission lines and electricity cables and other services		**1,196**	1,281
VAT recoverable	(i)	**81**	442
Others		**2,896**	1,894
		15,134	14,591

(i) VAT recoverable includes input VAT and prepaid VAT which will likely be deducted beyond one year. VAT recoverable which will be deducted within one year are included in "Prepayments and other current assets". See Note 21(i).

(All amounts in RMB millions unless otherwise stated)

19. INVENTORIES AND CONSUMABLES

	30 June 2021	31 December 2020
Handsets and other telecommunications products	2,122	1,682
Consumables	23	1
Others	603	268
	2,748	1,951

20. ACCOUNTS RECEIVABLE

	30 June 2021	31 December 2020
Accounts receivable	36,420	26,009
Less: Expected credit loss allowance	(12,303)	(9,722)
	24,117	16,287

The aging analysis of accounts receivable, based on the billing date and net of expected credit loss allowance, is as follows:

	30 June 2021	31 December 2020
Within one month	10,846	8,963
More than one month to three months	4,929	2,766
More than three months to one year	7,081	3,914
More than one year	1,261	644
	24,117	16,287

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

There is no significant concentration of credit risk with respect to accounts receivable, as the Group has a large number of customers. The Covid-19 pandemic since early 2020 has brought about additional uncertainties in the operations and financial position of the Group's customers. The Group considered the impact of Covid-19 when evaluating the forward-looking information used in the expected credit loss model including assessing the risk factors associated with various customer sectors.

(All amounts in RMB millions unless otherwise stated)

21. PREPAYMENTS AND OTHER CURRENT ASSETS

The nature of prepayments and other current assets, net of credit loss allowance, are as follows:

	Note	30 June 2021	31 December 2020
Prepaid services charges for transmission lines and electricity cables and other services		3,534	3,549
Prepaid power and water charges		710	625
Deposits and prepayments		2,918	3,607
VAT recoverable	(i)	5,646	5,726
Prepaid enterprise income tax		40	12
Others		3,673	2,363
		16,521	15,882

(i) VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

Prepayments and other current assets are expected to be recovered or recognised as expenses within one year.

As at 30 June 2021, there was no significant impairment for the prepayments and other current assets.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents refer to all cash on hand and demand deposits, short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

23. SHARE CAPITAL

Issued and fully paid:	Number of shares millions	Share capital
At 1 January 2020, at 31 December 2020 and at 30 June 2021	30,598	254,056

24. DIVIDENDS

At the annual general meeting held on 13 May 2021, the shareholders of the Company approved the payment of a final dividend of RMB0.164 per ordinary share for the year ended 31 December 2020 totaling approximately RMB5,018 million (for the year ended 31 December 2019: final dividend of RMB0.148 per ordinary share, totaling approximately RMB4,529 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2021.

At a meeting held on 19 August 2021, the Board of Directors of the Company declared an 2021 interim dividend of RMB0.120 per ordinary share to the shareholders totaling approximately RMB3,672 million (2020 interim dividend: Nil).

(All amounts in RMB millions unless otherwise stated)

24. DIVIDENDS (Continued)

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after 1 January 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise ("TRE"). On 11 November 2010, the Company obtained an approval from State Administration of Taxation of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2021 and 31 December 2020, 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 statements for the undistributed profits of the Company's subsidiaries in the PRC.

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

25. LONG-TERM BANK LOANS

	Interest rates and final maturity	30 June 2021	31 December 2020
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (31 December 2020: 1.08% to 1.20%) per annum with maturity through 2036 (31 December 2020: maturity through 2036)	2,135	2,678
USD denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (31 December 2020: Nil to 1.55%) per annum with maturity through 2039 (31 December 2020: maturity through 2039)	191	204
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2020: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2020: maturity through 2034)	16	18
Sub-total		2,342	2,900
Less: Current portion		(346)	(418)
		1,996	2,482

As at 30 June 2021, long-term bank loans of approximately RMB43 million (31 December 2020: approximately RMB46 million) were guaranteed by third parties.

(All amounts in RMB millions unless otherwise stated)

25. LONG-TERM BANK LOANS (Continued)

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

	30 June 2021	31 December 2020
Balances due:		
— no later than one year	346	418
— later than one year and no later than two years	373	444
— later than two years and no later than five years	930	1,072
— later than five years	693	966
	2,342	2,900
Less: Portion classified as current liabilities	(346)	(418)
	1,996	2,482

26. PROMISSORY NOTES

On 18 November 2019, China United Network Communications Corporation Limited ("CUCL") issued tranche one of 2019 promissory notes in an amount of RMB1 billion, with a maturity period of 3 years from the date of issue and which carries interest at 3.39% per annum.

27. CORPORATE BONDS

On 7 June 2016, the Group issued RMB1 billion 5-year corporate bond, bearing interest at 3.43% per annum, and was fully repaid in June 2021.

On 19 June 2019, the Group issued RMB2 billion 3-year corporate bonds, bearing interest at 3.67% per annum.

(All amounts in RMB millions unless otherwise stated)

28. SHORT-TERM BANK LOANS

	Interest rates and final maturity	30 June 2021	31 December 2020
RMB denominated bank loans	Fixed interest rates at 1.85% (31 December 2020: 1.85%) per annum with maturity through 2022 (31 December 2020: maturity through 2021)	490	740

29. COMMERCIAL PAPERS

On 15 July 2020, CUCL issued tranche one of 2020 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 180 days from the date of issue and which carries interest at 1.89% per annum, and was fully repaid in January 2021.

On 15 July 2020, CUCL issued tranche two of 2020 super short term commercial papers in an amount of RMB3 billion, with a maturity period of 180 days from the date of issue and which carries interest at 1.89% per annum, and was fully repaid in January 2021.

On 5 November 2020, CUCL issued tranche four of 2020 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 90 days from the date of issue and which carries interest at 2.17% per annum, and was fully repaid in February 2021.

On 23 June 2021, CUCL issued tranche one of 2021 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 270 days from the date of issue and which carries interest at 2.80% per annum.

30. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2021	31 December 2020
Payables to contractors and equipment suppliers	60,072	73,046
Payables to telecommunications products suppliers	5,119	3,779
Customer/contractor deposits	5,286	5,723
Repair and maintenance expense payables	5,431	5,261
Salary and welfare payables	16,641	12,248
Amounts due to technical support services and other service providers/content providers	5,156	4,852
VAT received from customers in advance	3,038	2,746
Accrued expenses	19,021	17,186
Others	7,201	9,596
	126,965	134,437

(All amounts in RMB millions unless otherwise stated)

30. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Continued)

The aging analysis of accounts payable and accrued liabilities is based on the invoice date as follows:

	30 June 2021	31 December 2020
Less than six months	105,971	116,553
Six months to one year	9,850	8,846
More than one year	11,144	9,038
	126,965	134,437

31. 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 2021, the related financial assets measured at FVOCI amounted to approximately RMB1,945 million (31 December 2020: approximately RMB1,672 million). For the six months ended 30 June 2021, the increase in fair value of the financial assets measured at FVOCI was approximately RMB273 million (for the six months ended 30 June 2020: decrease of approximately RMB954 million), has been recorded in the unaudited condensed consolidated statement of comprehensive income.

32. EQUITY-SETTLED SHARE OPTION SCHEMES

On 16 April 2014, the Company adopted a 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.

No options outstanding as at 30 June 2021 and 2020.

33. RESTRICTED A-SHARE INCENTIVE SCHEME

Pursuant to the share incentive scheme (Phase I) of A Share Company (the "Restricted A-Share Incentive Scheme"), not more than 848 million restricted shares of A Share Company ("Restricted Shares") were approved for granting to the core employees of the Group, the first batch granted Restricted Shares of 793,861,000 and second batch granted Restricted Shares of 13,156,000 were subscribed by them (the "Participants", including certain core employees of the Company's subsidiaries) on 21 March 2018 and 1 February 2019 (the "Grant Dates"), respectively, with a subscription price of RMB3.79 per share. The fair value of the Restricted Shares granted under the respective Grant Dates is RMB2.34 and RMB1.57 per share, respectively, as determined based on the difference between the market price of A Share Company of RMB6.13 per share and RMB5.36 per share at the respective Grant Dates, and the subscription price of RMB3.79 per share.

The Restricted Shares are subject to various lock-up periods (the "Lock-Up Period") of approximately 2 years, 3 years and 4 years, respectively, immediately from the Grant Dates. During the Lock-Up Period, these shares are not transferrable, nor subject to any guarantee or indemnity. The Restricted Shares shall be unlocked (or repurchased and cancelled by A Share Company) separately in three tranches in proportion of 40%, 30% and 30% of the total number of the Restricted Shares granted upon the expiry of each of the Lock-Up Period.

Subject to fulfilment of all service and performance conditions under the Restricted A-Share Incentive Scheme which include the achievement of certain revenue and profit targets of A Share Company, the Participants' individual performance appraisal, etc. (collectively referred to as "vesting conditions"), the restriction over the Restricted Shares will be removed after the expiry of the corresponding Lock-Up Period for each tranche and the Participants will be fully entitled to these incentive shares. If the vesting conditions are not fulfilled and hence the Restricted Shares cannot be unlocked, A Share Company shall repurchase the Restricted Shares based on the respective subscription price from the Participants.

Pursuant to the Restricted A-Share Incentive Scheme, the second Lock-Up Period of approximately 3 years for the first batch granted Restricted Shares as well as the first Lock-Up Period of approximately 2 years for the second batch granted Restricted Shares have expired in April 2021. With the fulfilment of the vesting conditions, Restricted Shares of 218,379,125 were approved for unlocking after Lock-Up Period by the Board of Directors of A Share Company during the current period.

For the six months ended 30 June 2021, Restricted Shares of 3,742,200 were forfeited and repurchased (for the six months ended 30 June 2020: Restricted Shares of 8,198,000).

For the six months ended 30 June 2021, the Group recognised share-based payment expenses and other reserve of RMB78 million during the period under the Restricted A-Share Incentive Scheme (for the six month ended 30 June 2020: RMB221 million).

(All amounts in RMB millions unless otherwise stated)

34. FAIR VALUE ESTIMATION

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, financial assets included in prepayments and other current assets, amounts due from ultimate holding company, related parties and domestic carriers, financial assets measured at fair value. Financial liabilities of the Group mainly include short-term bank loans, financial liabilities included in accounts payable and accrued liabilities, commercial papers, corporate bonds, promissory notes, long-term bank loans, other obligations and amounts due to ultimate holding company, related parties and domestic carriers.

(a) Financial assets measured at fair value

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

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

The following table presents the Group's assets that are measured at fair value at 30 June 2021:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement				
Equity securities measured at FVOCI (non-recycling)	2,070	—	52	2,122
Financial assets measured at FVPL	2,481	—	950	3,431
Debt securities measured at FVOCI (recycling)	31,898	—	—	31,898
Total	36,449	—	1,002	37,451

The following table presents the Group's assets that are measured at fair value at 31 December 2020:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement				
Equity securities measured at FVOCI (non-recycling)	1,786	—	52	1,838
Financial assets measured at FVPL	1,465	100	929	2,494
Debt securities measured at FVOCI (recycling)	23,350	—	—	23,350
Total	26,601	100	981	27,682

(All amounts in RMB millions unless otherwise stated)

34. FAIR VALUE ESTIMATION (Continued)

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. 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, debt securities issued by banks which are classified as financial assets measured at FVOCI and certain equity investments, investments in monetary funds that are classified as financial assets measured at FVPL.

During the six months ended 30 June 2021 and 2020, 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 instruments carried at other than fair value

Except as detailed in the following table, 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 2021 and 31 December 2020 due to the nature or short maturity of those instruments.

	Carrying amounts as at 30 June 2021	Fair value as at 30 June 2021	Fair value measurements as at 30 June 2021 categorised into			Carrying amounts as at 31 December 2020	Fair value as at 31 December 2020
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	1,996	2,060	—	2,060	—	2,482	2,552
Non-current portion of promissory notes	998	1,019	1,019	—	—	998	1,005
Non-current portion of corporate bonds	—	—	—	—	—	1,999	2,050

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 0.57% to 4.35% (31 December 2020: 0.57% to 4.35%) per annum. The fair value of promissory notes are based on the quoted price in the interbank trading market.

35. MATERIAL 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.

(All amounts in RMB millions unless otherwise stated)

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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) sharing certain telecommunications network infrastructure; 3) purchasing of goods, including use of public utilities; and 4) 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 service provided by 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. Amounts due from domestic carriers are all derived from contracts with customers.

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

35.1 Connected transactions with Unicom Group and its subsidiaries other than the Group ("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	
	Note	**2021**	2020
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i)	**55**	55
Rental charges for short-term property leasing and related services charges	(i)	**485**	492
Charges for short-term lease of telecommunications resources and related services	(i)	**143**	133
Charges for engineering design and construction services	(i)	**878**	539
Charges for shared services	(i)	**41**	39
Charges for materials procurement services	(i)	**6**	9
Charges for ancillary telecommunications services	(i)	**1,259**	1,371
Charges for comprehensive support services	(i)	**444**	404
Income from comprehensive support services	(i)	**32**	35
Lending by Unicom Group Finance Company Limited ("Finance Company") to Unicom Group	(i)	**8,100**	14,100
Repayment of loans lending by Finance Company to Unicom Group	(i)	**8,100**	11,304
Interest income from lending services	(i)	**168**	191

(i) On 21 October 2019, CUCL entered into the agreement "2020–2022 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. "2020–2022 Comprehensive Services Agreement" has a term of three years commencing on 1 January 2020 and expiring on 31 December 2022, the service fees payable under "2020–2022 Comprehensive Services Agreement" shall be calculated on the same basis as under previous agreement, and no changes on the annual caps amount.

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

35.1 Connected transactions with Unicom Group and its subsidiaries other than the Group ("Unicom Group and its subsidiaries") (Continued)

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

Amount due from Unicom Group as at 30 June 2021 included loans from Finance Company to Unicom Group of RMB10,500 million in total with respective floating interest rate of Loan Prime Rate ("LPR") published by the National Interbank Funding Center ("NIFC") (31 December 2020: RMB10,500 million with floating interest rate of LPR published by the NIFC).

Apart from the above and as disclosed in Note 35.3 below, 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.

35.2 Related party transactions with Tower Company

(a) Related Party transactions

(i) Lease of the Tower Assets and other related services

On 8 July 2016, CUCL and Tower Company entered into a framework agreement to confirm the pricing and related arrangements in relation to the usage of certain telecommunications towers and related assets (the "Agreement"). The Agreement finalised terms including assets categories, pricing basis for usage charges, and relevant service period etc. Provincial service agreements and detailed lease confirmation for specified towers have been signed subsequently.

On 31 January 2018, after further arm-length negotiations and discussions, CUCL and Tower Company agreed on certain supplementary provisions based on the Agreement dated 8 July 2016, which mainly relate to a reduction in cost-plus margin of Tower Company which forms the benchmark for pricing and an increase in co-tenancy discount rates offered to the Group regarding towers under co-sharing arrangements. The new terms apply to the leased tower portfolio as confirmed by both parties are effective from 1 January 2018 for a period of five years.

In connection with the use of telecommunications towers and related assets, the minimum amount of lease payments payable by the Group under the terms of the arrangement had resulted in recognition of lease liabilities with the balance of RMB15,781 million, and right-of-use assets with the balance of RMB14,398 million as at 30 June 2021 (31 December 2020: RMB17,837 million and RMB17,005 million, respectively). For the six months ended 30 June 2021, the Group recorded depreciation of right-of-use asset of RMB3,701 million (for the six months ended 30 June 2020: RMB3,501 million), interest expense of RMB313 million (for the six months ended 30 June 2020: RMB403 million), and variable lease payments and other related service charges of RMB5,429 million (for the six months ended 30 June 2020: RMB5,452 million) in its unaudited condensed consolidated statement of income.

The total contractual amounts of lease payments and service charges incurred by the Group under the Agreement and supplementary provisions with Tower Company for the six months ended 30 June 2021 were RMB9,488 million (for the six months ended 30 June 2020: RMB9,295 million). The related payable balance to Tower Company excluding lease liabilities included in the balance of amounts due to related parties as at 30 June 2021 was RMB4,236 million (31 December 2020: RMB3,893 million).

(All amounts in RMB millions unless otherwise stated)

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

35.2 Related party transactions with Tower Company (Continued)

(a) Related Party transactions (Continued)

(ii) Income from engineering design and construction services

The Group provide engineering design and construction services, including system integration and engineering design services to Tower Company. Income for the six months ended 30 June 2021 was RMB173 million (for the six months ended 30 June 2020: RMB151 million).

Amounts due from and to Tower Company are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Tower Company as described above.

35.3 Other related party transactions with Unicom Group and its subsidiaries

(a) Related party transactions

		Six months ended 30 June	
	Notes	2021	2020
Transactions with Unicom Group and its subsidiaries:			
Interest expenses on unsecured entrusted loan	(i)	44	66
Lending of loan	(i)	208	—
Repayment of loan	(i)	2,385	—
Net deposits with Finance Company	(ii)	1,267	3,223
Interest expenses on the deposits in Finance Company	(ii)	31	34

(i) On 26 December 2018, the Group borrowed an unsecured entrusted loan from A Share Company of RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum. The Group partially repaid this loan amounting to RMB2,300 million for the six months ended 30 June 2021.

On 21 May 2021, the Group borrowed an unsecured entrusted loan from Unicom Group BVI of HKD250 million (equivalent to RMB208 million) with floating interest rate at six-month HIBOR plus 0.9%. The Group partially repaid this loan amounting to HKD103 million (equivalent to RMB85 million) for the six months ended 30 June 2021.

(ii) Finance Company has agreed to provide financial services to Unicom Group and its subsidiaries. For the deposit services, the interest rate for deposits placed by Unicom Group and its subsidiaries will be no more than the maximum interest rate promulgated by the People's Bank of China for the same type of deposit, the interest rate for the same type of deposit offered to other clients and the applicable interest rate offered by the general commercial banks in the PRC for the same type of deposit.

(All amounts in RMB millions unless otherwise stated)

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

35.3 Other related party transactions with Unicom Group and its subsidiaries (Continued)

(b) Amounts due to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as at 30 June 2021 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB6,379 million with interest rates ranging from 0.42% to 2.75% per annum for saving and fixed deposits of different terms (31 December 2020: RMB5,112 million with interest rates ranging from 0.42% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as at 30 June 2021 included: 1) a balance of unsecured entrusted loan from A Share Company of RMB742 million with a maturity period of 5 years and interest rate at 4.28% per annum (31 December 2020: RMB3,042 million with a maturity period of 5 years and interest rate at 4.28% per annum); 2) a balance of unsecured entrusted loan from Unicom Group BVI of HKD147 million (equivalent to RMB123 million) (31 December 2020: Nil) with floating interest rate at six-month HIBOR plus 0.9%.

36. CONTINGENCIES AND COMMITMENTS

36.1 Capital commitments

As at 30 June 2021 and 31 December 2020, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2021			31 December 2020
	Property	Equipment	Total	Total
Authorised and contracted for	2,092	26,718	28,810	26,082
Authorised but not contracted for	7,403	23,577	30,980	47,801
	9,495	50,295	59,790	73,883

36.2 Contingent liabilities

As at 30 June 2021, the Group had no material contingent liabilities and no material financial guarantees issued.

37. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Board of Directors declared an interim dividend. For details, please refer to Note 24.

38. APPROVAL OF FINANCIAL STATEMENTS

This unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 19 August 2021.