

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(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 comprehensive telecommunications services. 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.

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 2023 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 Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2023 have not been audited, but have been reviewed by the Company’s Audit Committee. They have 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 2022. 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 2022 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2023.

## 2. BASIS OF PREPARATION (Continued)

The financial information relating to the year ended 31 December 2022 that is included in these unaudited condensed consolidated interim financial statements 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 2022 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 2023, current liabilities of the Group exceeded current assets by approximately RMB92.0 billion (31 December 2022: approximately RMB104.6 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 RMB256.4 billion of revolving banking facilities of which approximately RMB246.9 billion was unutilised as at 30 June 2023; 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 2023 have been prepared on a going concern basis.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

Other than the changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2022.

The HKICPA has issued the following new and amendments to HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17), “Insurance Contracts”
- Amendments to HKAS 8, “Definition of Accounting Estimates”
- Amendments to HKAS 12, “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”
- Amendments to HKAS 12, “International Tax Reform — Pillar Two Model Rules”

The application of the new and amendments to HKFRSs in the current interim period has 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 these 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 revenue from a single customer accounted for 10 percent or more of the Group’s revenue in all periods presented.

## 5. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") at VAT rates applicable to various telecommunications services. The VAT rates for basic telecommunications services and value-added telecommunications services are 9% and 6%, respectively, while 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 |         |
|---|--------------------------|---------|
|   | 2023                     | 2022    |
| Voice usage and monthly fees  | 10,724                   | 10,620  |
| Broadband and mobile data services  | 78,000                   | 78,335  |
| Data and internet application services                                      | 47,752                   | 40,371  |
| Other value-added services  | 14,660                   | 12,799  |
| Interconnection fees  | 6,404                    | 6,322   |
| Transmission lines usage and associated services                            | 11,144                   | 10,071  |
| Other services  | 2,361                    | 2,453   |
| Total service revenue   | 171,045                  | 160,971 |
| Sales of telecommunications products  | 20,788                   | 15,290  |
| Total   | 191,833                  | 176,261 |
| Include: Revenue from contracts with customers within the scope of HKFRS 15 | 191,215                  | 175,641 |
| Revenue from other sources  | 618                      | 620     |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 6. NETWORK, OPERATION AND SUPPORT EXPENSES

|  | Note | Six months ended 30 June |        |
|--|------|--------------------------|--------|
|  |      | 2023                     | 2022   |
| Repairs and maintenance  |      | 5,471                    | 5,636  |
| Power and water charges  |      | 7,343                    | 7,212  |
| Charges for use of network, premises, equipment and facilities | (i)  | 9,633                    | 7,426  |
| Charges for use of tower assets                                | (ii) | 5,553                    | 5,463  |
| Others   |      | 1,167                    | 1,107  |
|  |      | 29,167                   | 26,844 |

(i) During the six months ended 30 June 2023 and 2022, 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 2023 and 2022, 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

|   | Note | Six months ended 30 June |        |
|---|------|--------------------------|--------|
|   |      | 2023                     | 2022   |
| Salaries and wages                                    |      | 23,847                   | 24,936 |
| Contributions to defined contribution pension schemes |      | 4,422                    | 4,027  |
| Contributions to medical insurance                    |      | 1,676                    | 1,521  |
| Contributions to housing fund                         |      | 2,157                    | 1,968  |
| Other housing benefits                                |      | 6                        | 18     |
| Share-based compensation                              | 31   | 142                      | 7      |
|   |      | 32,250                   | 32,477 |

## 8. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2023                     | 2022   |
| Handsets and other telecommunications products | 20,032                   | 14,285 |
| Others   | 240                      | 284    |
|  | 20,272                   | 14,569 |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 9. OTHER OPERATING EXPENSES

|   | Six months ended 30 June |        |
|---|--------------------------|--------|
|   | 2023                     | 2022   |
| Impairment losses under expected credit loss, net of reversal | 3,244                    | 3,287  |
| Write-down of inventories                                     | 104                      | 250    |
| Commission and other service expenses                         | 12,742                   | 11,884 |
| Advertising and promotion expenses                            | 813                      | 1,072  |
| Internet access terminal maintenance expenses                 | 1,227                    | 1,088  |
| Customer retention costs                                      | 1,607                    | 1,444  |
| Property management fee                                       | 1,357                    | 1,306  |
| Office and administrative expenses                            | 768                      | 544    |
| Transportation expense  | 332                      | 569    |
| Miscellaneous taxes and fees                                  | 738                      | 703    |
| Service technical support expenses                            | 25,828                   | 20,309 |
| Repairs and maintenance expenses                              | 163                      | 202    |
| (Gains)/losses on disposal of property, plant and equipment   | (85)                     | 1,180  |
| Others  | 2,156                    | 1,808  |
|   | 50,994                   | 45,646 |

## 10. FINANCE COSTS

|   | Six months ended 30 June |      |
|---|--------------------------|------|
|   | 2023                     | 2022 |
| Finance costs:  |                          |      |
| — Interest on corporate bonds, promissory notes and commercial papers | 43                       | 70   |
| — Interest on lease liabilities                                       | 881                      | 434  |
| — Interest on related party loans                                     | 23                       | 16   |
| — Interest on bank loans and others                                   | 69                       | 68   |
| — Less: Amount capitalised in construction-in-progress ("CIP")        | (11)                     | (18) |
| Total interest expense  | 1,005                    | 570  |
| Net exchange gain   | (133)                    | (69) |
| Others  | 24                       | 24   |
|   | 896                      | 525  |

## 11. OTHER INCOME — NET

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2023                     | 2022  |
| Dividend from financial assets measured at FVOCI (non-recycling)                            | 74                       | 67    |
| Government grants   | 344                      | 275   |
| Additional deduction for VAT  | 1,029                    | 1,035 |
| Investment income from debt securities measured at FVOCI (recycling)                        | 204                      | 280   |
| Fair value gains on financial assets measured at fair value through profit or loss ("FVPL") | 109                      | 8     |
| Others  | 180                      | 77    |
|   | 1,940                    | 1,742 |



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(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 2022: 16.5%) on the estimated assessable profits for the six months ended 30 June 2023. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2023 at the rates of taxation prevailing in the jurisdictions in which the Group operates. The Company's subsidiaries operate mainly in Mainland China and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2022: 25%). Taxation for certain subsidiaries in Mainland China was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2022: 15%).

|  | Six months ended 30 June |       |
|--|--------------------------|-------|
|  | 2023                     | 2022  |
| Provision for income tax on estimated taxable profits for the period |                          |       |
| — Hong Kong  | 41                       | 38    |
| — Mainland China and other jurisdictions                             | 4,648                    | 3,088 |
| Over provision in respect of prior years                             | (12)                     | (15)  |
|  | 4,677                    | 3,111 |
| Deferred taxation  | (1,857)                  | (691) |
| Income tax expenses  | 2,820                    | 2,420 |

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

|   | Note  | Six months ended 30 June |        |
|---|-------|--------------------------|--------|
|   |       | 2023                     | 2022   |
| Profit before income tax  |       | 15,320                   | 13,416 |
| Expected income tax expenses at PRC statutory tax rate of 25%               |       | 3,830                    | 3,354  |
| Impact of different tax rate outside Mainland China                         |       | (35)                     | (24)   |
| Tax effect of preferential tax rate   | (i)   | (202)                    | (190)  |
| Additional deduction for qualified research and development costs           | (i)   | (610)                    | (372)  |
| Tax effect of non-deductible expenses                                       |       | 345                      | 145    |
| Tax effect of non-taxable income from share of net profit of joint ventures |       | (233)                    | (230)  |
| Tax effect of non-taxable income from share of net profit of associates     | (ii)  | (271)                    | (226)  |
| Over provision in respect of prior years                                    |       | (12)                     | (15)   |
| Tax effect of unused tax losses not recognised, net of utilisation          | (iii) | 8                        | (22)   |
| Actual tax expenses   |       | 2,820                    | 2,420  |

## 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 2022: 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 2022: 15%), and certain research and development costs of the Group's Mainland China subsidiaries are qualified for 100% (for the six months ended 30 June 2022: 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 2023, the Group did not recognise deferred tax assets in respect of tax losses amounting to approximately RMB479 million (31 December 2022: approximately RMB446 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 or ten years from the year incurred and hence will be expired by the year of 2023 to 2033.

As at 30 June 2023, the Group did not recognise deferred tax assets in respect of fair value changes on financial assets measured at FVOCI (non-recycling) amounting to approximately RMB9,586 million (31 December 2022: approximately RMB9,852 million), 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 |       |
|---|--------------------------|-------|
|   | 2023                     | 2022  |
| Net deferred tax assets after offsetting:                       |                          |       |
| — Balance at 1 January  | 469                      | 271   |
| — Deferred tax credited to statement of income                  | 1,043                    | 395   |
| — Deferred tax (charged)/credited to other comprehensive income | (7)                      | 1     |
| — Balance at 30 June  | 1,505                    | 667   |
| Net deferred tax liabilities after offsetting:                  |                          |       |
| — Balance at 1 January  | (950)                    | (417) |
| — Deferred tax credited to statement of income                  | 814                      | 296   |
| — Deferred tax charged to other comprehensive income            | (8)                      | (1)   |
| — Balance at 30 June  | (144)                    | (122) |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 13. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2023 and 2022 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 2023 and 2022 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. There were no dilutive potential ordinary shares for the six months ended 30 June 2023 and 2022.

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

|  | Six months ended 30 June |        |
|--|--------------------------|--------|
|  | 2023                     | 2022   |
| Numerator (in RMB millions):   |                          |        |
| Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share | 12,391                   | 10,957 |
| Denominator (in millions):   |                          |        |
| Number of ordinary shares outstanding used in computing basic/diluted earnings per share                     | 30,598                   | 30,598 |
| Basic/Diluted earnings per share (in RMB)  | 0.40                     | 0.36   |

## 14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2023 and 2022 are as follows:

|   | Six months ended 30 June 2023 |                               |  |                        |          | Total     |
|---|-------------------------------|-------------------------------|--|------------------------|----------|-----------|
|   | Buildings                     | Tele-communications equipment | Office furniture, fixtures, motor vehicles and other equipment | Leasehold improvements | CIP      |           |
| <b>Cost:</b>                                    |                               |                               |  |                        |          |           |
| Beginning of period                             | 79,284                        | 827,720                       | 19,655   | 3,093                  | 48,580   | 978,332   |
| Additions                                       | 50                            | 125                           | 133  | 88                     | 27,099   | 27,495    |
| Transfer from CIP                               | 877                           | 19,439                        | 311  | 146                    | (20,773) | -         |
| Transfer to other assets                        | -                             | -                             | -  | -                      | (2,554)  | (2,554)   |
| Disposals                                       | (64)                          | (8,603)                       | (210)  | (133)                  | -        | (9,010)   |
| End of period                                   | 80,147                        | 838,681                       | 19,889   | 3,194                  | 52,352   | 994,263   |
| <b>Accumulated depreciation and impairment:</b> |                               |                               |  |                        |          |           |
| Beginning of period                             | (43,973)                      | (564,878)                     | (14,597)   | (2,351)                | (100)    | (625,899) |
| Charge for the period                           | (1,305)                       | (28,224)                      | (649)  | (169)                  | -        | (30,347)  |
| Disposals                                       | 49                            | 8,057                         | 205  | 117                    | -        | 8,428     |
| End of period                                   | (45,229)                      | (585,045)                     | (15,041)   | (2,403)                | (100)    | (647,818) |
| <b>Net book value:</b>                          |                               |                               |  |                        |          |           |
| End of period                                   | 34,918                        | 253,636                       | 4,848  | 791                    | 52,252   | 346,445   |
| Beginning of period                             | 35,311                        | 262,842                       | 5,058  | 742                    | 48,480   | 352,433   |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The movements of property, plant and equipment for the six months ended 30 June 2023 and 2022 are as follows: (Continued)

|  | Six months ended 30 June 2022 |                               |  |                        |          | CIP | Total     |
|--|-------------------------------|-------------------------------|--|------------------------|----------|-----|-----------|
|  | Buildings                     | Tele-communications equipment | Office furniture, fixtures, motor vehicles and other equipment | Leasehold improvements |          |     |           |
| Cost:                                    |                               |                               |  |                        |          |     |           |
| Beginning of period                      | 78,179                        | 831,045                       | 19,825   | 3,336                  | 43,411   |     | 975,796   |
| Additions                                | 50                            | 171                           | 52   | 137                    | 27,978   |     | 28,388    |
| Transfer from CIP                        | 905                           | 16,362                        | 425  | 84                     | (17,776) |     | -         |
| Transfer to other assets                 | -                             | -                             | -  | -                      | (2,678)  |     | (2,678)   |
| Disposals                                | (73)                          | (51,970)                      | (447)  | (97)                   | -        |     | (52,587)  |
| End of period                            | 79,061                        | 795,608                       | 19,855   | 3,460                  | 50,935   |     | 948,919   |
| Accumulated depreciation and impairment: |                               |                               |  |                        |          |     |           |
| Beginning of period                      | (41,674)                      | (561,526)                     | (15,008)   | (2,418)                | (139)    |     | (620,765) |
| Charge for the period                    | (1,442)                       | (28,914)                      | (663)  | (189)                  | -        |     | (31,208)  |
| Disposals                                | 66                            | 50,078                        | 422  | 97                     | -        |     | 50,663    |
| End of period                            | (43,050)                      | (540,362)                     | (15,249)   | (2,510)                | (139)    |     | (601,310) |
| Net book value:                          |                               |                               |  |                        |          |     |           |
| End of period                            | 36,011                        | 255,246                       | 4,606  | 950                    | 50,796   |     | 347,609   |
| Beginning of period                      | 36,505                        | 269,519                       | 4,817  | 918                    | 43,272   |     | 355,031   |

## 15. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, 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 RMB5,418 million (for the six months ended 30 June 2022: RMB4,342 million).

## 16. FINANCIAL ASSETS MEASURED AT FAIR VALUE

|   | Note  | 30 June<br>2023 | 31 December<br>2022 |
|---|-------|-----------------|---------------------|
| Non-current portion:                                |       |                 |                     |
| Equity securities measured at FVOCI (non-recycling) | (i)   | 2,135           | 1,847               |
| Financial assets measured at FVPL                   | (ii)  | 1,138           | 1,130               |
| Debt securities measured at FVOCI (recycling)       | (iii) | 1,498           | 1,132               |
|   |       | 4,771           | 4,109               |
| Current portion:                                    |       |                 |                     |
| Financial assets measured at FVPL                   | (ii)  | 2,941           | 2,955               |
| Debt securities measured at FVOCI (recycling)       | (iii) | 16,656          | 16,638              |
|   |       | 19,597          | 19,593              |
|   |       | 24,368          | 23,702              |

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

|                        | Note | 30 June<br>2023 | 31 December<br>2022 |
|------------------------|------|-----------------|---------------------|
| Listed in the PRC      |      | 147             | 120                 |
| Listed outside the PRC | 29   | 1,879           | 1,613               |
| Unlisted               |      | 109             | 114                 |
|                        |      | 2,135           | 1,847               |

(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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 17. OTHER ASSETS

|   | Note | 30 June<br>2023 | 31 December<br>2022 |
|---|------|-----------------|---------------------|
| Intangible assets   |      | 16,157          | 16,469              |
| Prepaid services charges for transmission lines and electricity cables and other services |      | 1,932           | 2,049               |
| VAT recoverable   | (i)  | 258             | 186                 |
| Others  |      | 2,379           | 1,738               |
|   |      | 20,726          | 20,442              |

(i) VAT recoverable includes input VAT and prepaid VAT which are expected to be deducted beyond one year. VAT recoverable which is expected to be deducted within one year is included in "Prepayments and other current assets". See Note 19(i).

## 18. ACCOUNTS RECEIVABLE

|                             | 30 June<br>2023 | 31 December<br>2022 |
|-----------------------------|-----------------|---------------------|
| Accounts receivable         | 64,286          | 40,769              |
| Less: Credit loss allowance | (17,596)        | (14,438)            |
|                             | 46,690          | 26,331              |

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

|                                     | 30 June<br>2023 | 31 December<br>2022 |
|-------------------------------------|-----------------|---------------------|
| Within one month                    | 15,283          | 10,609              |
| More than one month to three months | 10,403          | 5,135               |
| More than three months to one year  | 16,851          | 9,070               |
| More than one year                  | 4,153           | 1,517               |
|                                     | 46,690          | 26,331              |

## 18. ACCOUNTS RECEIVABLE (Continued)

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.

## 19. PREPAYMENTS AND OTHER CURRENT ASSETS

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

|   | Note | 30 June<br>2023 | 31 December<br>2022 |
|---|------|-----------------|---------------------|
| Prepaid services charges for transmission lines and electricity cables and other services |      | 3,713           | 3,962               |
| Prepaid power and water charges   |      | 632             | 778                 |
| Deposits and prepayments  |      | 3,624           | 4,628               |
| VAT recoverable   | (i)  | 8,076           | 8,285               |
| Prepaid enterprise income tax   |      | 4               | 70                  |
| Financial assets held under resale agreements   | (ii) | 4,912           | –                   |
| Others  |      | 4,707           | 3,432               |
|   |      | 25,668          | 21,155              |

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

(ii) Financial assets held under resale agreements are transactions where Unicom Group Finance Company Limited ("Finance Company") acquires financial assets which will be resold at a predetermined price at a future date under resale agreements.

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

As at 30 June 2023 and 31 December 2022, there was no significant impairment for the prepayments and other current assets.

## 20. 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.



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 21. SHARE CAPITAL

| Issued and fully paid:                                     | Number of<br>shares<br>millions | Share<br>capital |
|--|---------------------------------|------------------|
| At 1 January 2022, at 31 December 2022 and at 30 June 2023 | 30,598                          | 254,056          |

## 22. DIVIDENDS

At the annual general meeting held on 19 May 2023, the shareholders of the Company approved the payment of a final dividend of RMB0.109 per ordinary share for the year ended 31 December 2022, totalling approximately RMB3,335 million (for the six months ended 30 June 2022: final dividend for the year ended 31 December 2021 of RMB0.096 per ordinary share, totalling approximately RMB2,937 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2023 and was fully paid by July 2023.

At a meeting held on 9 August 2023, the Board of Directors of the Company declared 2023 interim dividend of RMB0.203 per ordinary share to the shareholders totalling approximately RMB6,211 million (for the six months ended 30 June 2022: 2022 interim dividend of RMB0.165 per ordinary share to the shareholders totalling approximately RMB5,049 million).

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 Taxation Administration of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2023 and 31 December 2022, the Company's subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group's unaudited condensed consolidated interim financial 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.

## 23. LONG-TERM BANK LOANS

|   |  | 30 June<br>2023 | 31 December<br>2022 |
|---|--|-----------------|---------------------|
|   | <b>Interest rates and final maturity</b>   |                 |                     |
| RMB denominated bank loans                                  | Fixed interest rates ranging from 1.08% to 2.50% (31 December 2022: 1.08% to 1.20%) per annum with maturity through 2036 (31 December 2022: maturity through 2036) | 1,542           | 1,714               |
| United States dollars ("US dollars") denominated bank loans | Fixed interest rate is Nil (31 December 2022: Nil to 1.55%) per annum with maturity through 2039 (31 December 2022: maturity through 2039)                         | 165             | 171                 |
| European dollars ("Euro") denominated bank loans            | Fixed interest rates ranging from 1.10% to 1.50% (31 December 2022: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2022: maturity through 2034) | 10              | 11                  |
| Sub-total   |  | 1,717           | 1,896               |
| Less: Current portion                                       |  | (353)           | (368)               |
|   |  | 1,364           | 1,528               |

As at 30 June 2023, long-term bank loans of approximately RMB36 million (31 December 2022: approximately RMB42 million) were guaranteed by third parties.

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

|  | 30 June<br>2023 | 31 December<br>2022 |
|--|-----------------|---------------------|
| Balances due:                                      |                 |                     |
| — No later than one year                           | 353             | 368                 |
| — More than one year and no later than two years   | 312             | 354                 |
| — More than two years and no later than five years | 668             | 691                 |
| — More than five years                             | 384             | 483                 |
|  | 1,717           | 1,896               |
| Less: Portion classified as current liabilities    | (353)           | (368)               |
|  | 1,364           | 1,528               |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 24. PROMISSORY NOTE

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 which carried interest at 3.39% per annum, and was fully repaid in November 2022.

## 25. CORPORATE BONDS

On 19 June 2019, CUCL issued RMB2 billion 3-year corporate bonds, bearing interest at 3.67% per annum, which were fully repaid in June 2022.

## 26. SHORT-TERM BANK LOANS

| Interest rates and final maturity |  | 30 June<br>2023 | 31 December<br>2022 |
|-----------------------------------|--|-----------------|---------------------|
| RMB denominated<br>bank loans     | Fixed interest rates ranging from 1.65% to 2.75%<br>(31 December 2022: ranging from 1.65% to 2.00%)<br>per annum with maturity through 2024<br>(31 December 2022: maturity through 2023) | 531             | 331                 |

## 27. COMMERCIAL PAPERS

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 which carried interest at 2.80% per annum, and was fully repaid in March 2022.

On 27 July 2021, CUCL issued tranche two of 2021 super short term commercial papers in an amount of RMB3 billion, with a maturity period of 180 days from the date of issue which carried interest at 2.23% per annum, and was fully repaid in January 2022.

On 27 July 2021, CUCL issued tranche three of 2021 super short term commercial papers in an amount of RMB1.8 billion, with a maturity period of 180 days from the date of issue which carried interest at 2.23% per annum, and was fully repaid in January 2022.

On 2 September 2022, CUCL issued tranche one of 2022 short term commercial papers in an amount of RMB5 billion, with a maturity period of 365 days from the date of issue and which carried interest at 1.73% per annum.

## 28. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|  | 30 June<br>2023 | 31 December<br>2022 |
|--|-----------------|---------------------|
| Payables to contractors and equipment suppliers  | 85,020          | 85,475              |
| Payables to telecommunications products suppliers  | 6,071           | 3,966               |
| Customer/contractor deposits   | 5,029           | 4,975               |
| Repair and maintenance expense payables  | 6,650           | 6,808               |
| Salary and welfare payables  | 14,938          | 12,379              |
| Amounts due to technical support services and<br>other service providers/content providers | 9,562           | 8,402               |
| VAT received from customers in advance   | 2,086           | 2,311               |
| Accrued expenses   | 20,466          | 20,177              |
| Others   | 10,855          | 10,345              |
|  | <b>160,677</b>  | <b>154,838</b>      |

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

|                        | 30 June<br>2023 | 31 December<br>2022 |
|------------------------|-----------------|---------------------|
| Less than six months   | 137,975         | 131,253             |
| Six months to one year | 7,790           | 8,018               |
| More than one year     | 14,912          | 15,567              |
|                        | <b>160,677</b>  | <b>154,838</b>      |

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 29. 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 US dollars 1 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 US dollars 500 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 US dollars 500 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 2023, the related financial assets measured at FVOCI amounted to approximately RMB1,879 million (31 December 2022: approximately RMB1,613 million). For the six months ended 30 June 2023, the increase in fair value of the financial assets measured at FVOCI was approximately RMB266 million (for the six months ended 30 June 2022: increase of approximately RMB402 million), has been recorded in the unaudited condensed consolidated statement of comprehensive income.

## 30. 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 are outstanding as at 30 June 2023 and 31 December 2022.

### 31. RESTRICTED A-SHARE INCENTIVE SCHEME

#### The Phase I Restricted A-Share Incentive Scheme

Pursuant to the share incentive scheme (Phase I) of A Share Company (the "Phase I Restricted A-Share Incentive Scheme"), not more than 848 million restricted shares of A Share Company (the "Phase I Restricted Shares") were approved for granting to the core employees of the Group, the first batch granted Phase I Restricted Shares of 793,861,000 and second batch granted Phase I Restricted Shares of 13,156,000 were subscribed by 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 Phase I 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 Phase I 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 Phase I 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 Phase I Restricted Shares granted upon the expiry of each of the Lock-Up Period.

Subject to fulfilment of all service and performance conditions under the Phase I 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 Phase I 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 Phase I Restricted Shares cannot be unlocked, A Share Company shall repurchase the Phase I Restricted Shares based on the respective subscription price from the participants.

Pursuant to the Phase I Restricted A-Share Incentive Scheme, the third Lock-Up Period of approximately 4 years for the second batch have expired during the current period. With the fulfilment of the vesting conditions, the Phase I Restricted Shares of 3,240,375 (for the six months ended 30 June 2022: 206,767,725) in aggregate were approved for unlocking after the expiry of the Lock-Up Period by the Board of Directors of A Share Company during the current period.

For the six months ended 30 June 2023, none of the Phase I Restricted Shares (for the six months ended 30 June 2022: 3,261,600) were forfeited.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 31. RESTRICTED A-SHARE INCENTIVE SCHEME (Continued)

### The Phase II Restricted A-Share Incentive Scheme

Pursuant to the share incentive scheme (Phase II) of A Share Company (the “Phase II Restricted A-Share Incentive Scheme”), approximately 838 million restricted shares of A Share Company (the “Phase II Restricted Shares”) were approved for granting to the core employees of the Group, the granted Phase II Restricted Shares of 838,340,000 were subscribed by the participants, including certain core employees of the Company’s subsidiaries on 1 November 2022 (the “Grant Date”), with a subscription price of RMB2.48 per share. The fair value of the Phase II Restricted Shares granted under the Grant Date is RMB0.93 per share, as determined based on the difference between the market price of A Share Company of RMB3.41 per share at the Grant Date, and the subscription price of RMB2.48 per share.

The Phase II Restricted Shares are subject to various Lock-Up Periods of approximately 2 years, 3 years and 4 years, respectively, immediately from the Grant Date. During the Lock-Up Period, these shares are not transferrable, nor subject to any guarantee or indemnity. The Phase II 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 Phase II Restricted Shares granted upon the expiry of each of the Lock-Up Period.

Subject to fulfilment of all service and performance conditions under the Phase II 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., the restriction over the Phase II 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 Phase II Restricted Shares cannot be unlocked, A Share Company shall repurchase the Phase II Restricted Shares based on the lower of the subscription price from the participants and the market price at the time of repurchase.

For the six months ended 30 June 2023, the Group recognised share-based payment expenses and other reserves of RMB142 million under the Phase I and Phase II Restricted A-Share Incentive Schemes (for the six months ended 30 June 2022: RMB7 million).

## 32. FAIR VALUE ESTIMATION

Financial assets of the Group mainly include cash and cash equivalents, short-term bank deposits and restricted deposits, accounts receivable, the 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 and certain other assets. Financial liabilities of the Group mainly include short-term bank loans, financial liabilities included in accounts payable and accrued liabilities, bills payable, 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 as at 30 June 2023:

|  | Level 1       | Level 2   | Level 3      | Total         |
|--|---------------|-----------|--------------|---------------|
| <b>Recurring fair value measurement:</b>               |               |           |              |               |
| Equity securities measured at FVOCI<br>(non-recycling) | 2,026         | –         | 109          | 2,135         |
| Financial assets measured at FVPL                      | 2,769         | 61        | 1,249        | 4,079         |
| Debt securities measured at FVOCI<br>(recycling)       | 18,154        | –         | –            | 18,154        |
| <b>Total</b>   | <b>22,949</b> | <b>61</b> | <b>1,358</b> | <b>24,368</b> |



# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 32. FAIR VALUE ESTIMATION (Continued)

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

The following table presents the Group's assets that are measured at fair value at 31 December 2022:

|  | Level 1       | Level 2   | Level 3      | Total         |
|--|---------------|-----------|--------------|---------------|
| <b>Recurring fair value measurement:</b>               |               |           |              |               |
| Equity securities measured at FVOCI<br>(non-recycling) | 1,733         | –         | 114          | 1,847         |
| Financial assets measured at FVPL                      | 2,805         | 40        | 1,240        | 4,085         |
| Debt securities measured at FVOCI<br>(recycling)       | 17,770        | –         | –            | 17,770        |
| <b>Total</b>   | <b>22,308</b> | <b>40</b> | <b>1,354</b> | <b>23,702</b> |

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 2023 and 2022, 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.

### 32. FAIR VALUE ESTIMATION (Continued)

#### (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 2023 and 31 December 2022 due to the nature or short maturity of those instruments.

|  | Carrying | Fair value | Fair value measurements             |         |         | Carrying    | Fair value  |
|--|----------|------------|-------------------------------------|---------|---------|-------------|-------------|
|  | amounts  | as at      | as at 30 June 2023 categorised into |         |         | amounts     | as at       |
|  | as at    | as at      | Level 1                             | Level 2 | Level 3 | as at       | as at       |
|  | 30 June  | 30 June    |                                     |         |         | 31 December | 31 December |
|  | 2023     | 2023       |                                     |         |         | 2022        | 2022        |
| Non-current portion of long-term bank loans                    | 1,364    | 1,430      | -                                   | 1,430   | -       | 1,528       | 1,571       |
| Non-current portion of amounts due to ultimate holding company | 300      | 287        | -                                   | 287     | -       | 300         | 291         |

The fair value of the non-current portion of long-term bank loans and non-current portion of amounts due to ultimate holding company are based on the expected cash flows of principal and interests payment discounted at market rates ranging from 0.57% to 4.20% (31 December 2022: 0.57% to 4.35%) per annum as at 30 June 2023.

### 33. 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-owned 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) 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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

### 33.1 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.

|  | Note | Six months ended 30 June |         |
|--|------|--------------------------|---------|
|  |      | 2023                     | 2022    |
| Transactions with Unicom Group and its subsidiaries:                               |      |                          |         |
| Charges for value-added telecommunications services                                | (i)  | 7                        | 80      |
| Rental charges for short-term property leasing and related services charges        | (i)  | 517                      | 510     |
| Charges for use of telecommunications resources and related services               | (i)  | 104                      | 110     |
| Charges for engineering design and construction services and IT services           | (i)  | 81                       | 56      |
| Charges for shared services  | (i)  | 40                       | 39      |
| Charges for materials procurement services   | (i)  | 3                        | 7       |
| Charges for ancillary telecommunications services                                  | (i)  | 94                       | 4       |
| Charges for comprehensive support services   | (i)  | 353                      | 222     |
| Income from comprehensive support services   | (i)  | 29                       | 42      |
| Lending by Finance Company to Unicom Group and its subsidiaries                    | (i)  | 3,100                    | 8,500   |
| Repayment of loans lending by Finance Company to Unicom Group and its subsidiaries | (i)  | 3,100                    | 8,500   |
| Fee and interest income from lending services                                      | (i)  | 68                       | 169     |
| Net deposits with Finance Company  | (i)  | (1,149)                  | (2,394) |
| Interest expenses on the deposits in Finance Company                               | (i)  | 50                       | 40      |
| Interest expenses on unsecured entrusted loan                                      | (i)  | 23                       | 16      |

### 33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### 33.1 Connected transactions with Unicom Group and its subsidiaries other than the Group (“Unicom Group and its subsidiaries”) (Continued)

##### (a) Recurring transactions (Continued)

- (i) On 21 October 2019, CUCL and Unicom Group entered into the “2020–2022 Comprehensive Services Agreement” to renew certain continuing connected transactions. “2020–2022 Comprehensive Services Agreement” has a term of three years commencing on 1 January 2020 and expired on 31 December 2022.

On 28 October 2022, CUCL and Unicom Group entered into the “2023-2025 Comprehensive Services Agreement”, and Finance Company and Unicom Group entered into the “2023-2025 Financial Services Agreement”. Pursuant to the “2023-2025 Comprehensive Services Agreement”, CUCL and Unicom Group agreed to provide services to each other or by one to the other, including (i) use of telecommunications resources; (ii) property leasing; (iii) value-added telecommunications services; (iv) materials procurement services; (v) engineering design and construction services and IT services; (vi) ancillary telecommunications services; (vii) comprehensive support services and (viii) shared services. Pursuant to the “2023-2025 Financial Services Agreement”, Finance Company agreed to provide financial services to Unicom Group.

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

Amounts due from Unicom Group as at 30 June 2023 included loans from Finance Company to Unicom Group of RMB4,600 million in total with respective floating interest rate of Loan Prime Rate (“LPR”) published by the National Interbank Funding Center (“NIFC”) (31 December 2022: RMB4,600 million with respective floating interest rate of LPR published by the NIFC).

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

Amount due to Unicom Group and its subsidiaries as at 30 June 2023 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB5,572 million (31 December 2022: RMB6,721 million) with interest rates ranging from 0.42% to 2.75% per annum for saving and deposits of different terms.

Amount due to Unicom Group and its subsidiaries as at 30 June 2023 included unsecured entrusted loan from A Share Company of RMB742 million (31 December 2022: RMB742 million) with a maturity period of 5 years and interest rate at 4.28% per annum, unsecured entrusted loans from Unicom Group of RMB300 million (31 December 2022: RMB300 million) with a maturity period of 3 years and interest rate at 2.90% per annum and unsecured entrusted loans from Unicom Group of RMB171 million (31 December 2022: RMB171 million) with a maturity period of 1 year and interest rate at 2.90% per annum.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### 33.2 Connected transactions with associates and joint ventures of Unicom Group and its subsidiaries

The Group has entered into transactions with associates and joint ventures of Unicom Group and its subsidiaries based on terms comparable to terms of transactions entered with other entities. In the directors' opinion, these transactions were carried out in the ordinary course of business.

|   | Six months ended 30 June |       |
|---|--------------------------|-------|
|   | 2023                     | 2022  |
| Transactions with associates and joint ventures of Unicom Group and its subsidiaries: |                          |       |
| Charges for value-added telecommunications services                                   | 72                       | 38    |
| Rental charges for short-term property leasing and related services charges           | –                        | 4     |
| Charges for use of telecommunications resources and related services                  | 1                        | 5     |
| Charges for engineering design and construction services and IT services              | 1,335                    | 681   |
| Charges for materials procurement services  | 13                       | 66    |
| Charges for ancillary telecommunications services                                     | 1,584                    | 1,479 |
| Charges for comprehensive support services  | 531                      | 448   |
| Income from comprehensive support services  | 74                       | 20    |

### 33.3 Principal transactions with associates and joint ventures of the Group

The following is a summary of principal transactions entered into by the Group with the associates and joint ventures of the Group. In the directors' opinion, these transactions were carried out in the ordinary course of business.

|   | Note | Six months ended 30 June |       |
|---|------|--------------------------|-------|
|   |      | 2023                     | 2022  |
| Transactions with associates and joint ventures of the Group: |      |                          |       |
| Revenue from engineering design and construction services     | (i)  | 172                      | 153   |
| Related costs for use of tower assets                         | (ii) | 9,917                    | 9,549 |
| Additions of right-of-use assets                              | (ii) | 3,032                    | 1,099 |
| Revenue from value-added telecommunications services          |      | 190                      | 133   |
| Charges for value-added telecommunications services           |      | 240                      | 144   |
| Charges for materials procurement services                    |      | 2                        | 15    |
| Net deposits with Finance Company                             |      | (13)                     | (22)  |

### 33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### 33.3 Principal transactions with associates and joint ventures of the Group (Continued)

(i) **Engineering design and construction services**

The Group provided engineering design and construction services to Tower Company.

(ii) **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's 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 applicable to the leased tower portfolio as confirmed by both parties are effective from 1 January 2018 for a period of five years.

On 13 December 2022, the Board of Directors of the Company approved CUCL and Tower Company to sign the Commercial Pricing Agreement and the Service Agreement, and the material terms of the Commercial Pricing Agreement and the Service Agreement have been agreed and finalised, in which CUCL leases assets and receives services provided by Tower Company, including tower products, indoor distribution system products, transmission products and service products. The agreements further reduced the products pricing and increased the co-tenancy discount rates offered to the Group. The term of each of the Commercial Pricing Agreement and the Service Agreement is five years, effective from 1 January 2023 to 31 December 2027.

Based on HKFRS 16, "Leases", the minimum amount of lease payments payable by the Group under the terms of the arrangement in connection with its use of telecommunications towers and related assets had resulted in recognition of lease liabilities with the balance of RMB34,783 million and right-of-use assets with the carrying amounts of RMB33,648 million as at 30 June 2023 (31 December 2022: RMB37,814 million and RMB37,617 million, respectively). Related costs for use of tower assets include the depreciation of right-of-use assets of RMB3,694 million (for the six months ended 30 June 2022: RMB3,875 million), interest expense of RMB658 million (for the six months ended 30 June 2022: RMB211 million), and variable lease payments and other related service charges of RMB5,565 million (for the six months ended 30 June 2022: RMB5,463 million) in its unaudited condensed consolidated statement of income for the six months ended 30 June 2023.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2023

(All amounts in RMB millions unless otherwise stated)

## 33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### 33.3 Principal transactions with associates and joint ventures of the Group (Continued)

#### (ii) Lease of the tower assets and other related services (Continued)

The outstanding balances with the associates and joint ventures of the Group are summarised as follows:

|                                  | Note  | 30 June<br>2023 | 31 December<br>2022 |
|----------------------------------|-------|-----------------|---------------------|
| Amounts due from related parties |       | 294             | 221                 |
| Amounts due to related parties   | (iii) | 11,168          | 8,826               |

#### (iii) Amounts due to Tower Company

The related accounts payable and bills payable balance (exclude lease liabilities) to Tower Company included in the balance of amounts due to related parties as at 30 June 2023 was RMB 10,879 million (31 December 2022: RMB8,522 million). Except as mentioned in Note 33.3(ii), amounts due from/to Tower Company are unsecured, interest-free, repayable on demand/on contract terms with Tower Company as described above.

## 34. CONTINGENCIES AND COMMITMENTS

### 34.1 Capital commitments

As at 30 June 2023 and 31 December 2022, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

|                                   | 30 June 2023          |           |        | 31 December<br>2022 |
|-----------------------------------|-----------------------|-----------|--------|---------------------|
|                                   | Land and<br>buildings | Equipment | Total  | Total               |
| Authorised and contracted for     | 4,038                 | 29,480    | 33,518 | 33,598              |
| Authorised but not contracted for | 5,829                 | 38,085    | 43,914 | 43,446              |
|                                   | 9,867                 | 67,565    | 77,432 | 77,044              |

### 34.2 Contingent liabilities

As at 30 June 2023, the Group had no material contingent liabilities and no material financial guarantees issued.

## 35. NON-ADJUSTING EVENT 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 22.

## 36. APPROVAL OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 9 August 2023.