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**CHINA UNICOM (HONG KONG) LIMITED**

**中國聯合網絡通信（香港）股份有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 0762)**

**ANNOUNCEMENT**

The Board of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2011.

**GROUP RESULTS**

China Unicom (Hong Kong) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2011.

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2011**  
**(All amounts in Renminbi (“RMB”) millions)**

	<b>30 September 2011</b>	<b>31 December 2010</b> <b>As restated</b> <b>(Note 2(a))</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	360,844	366,060
Lease prepayments	7,569	7,607
Goodwill	2,771	2,771
Deferred income tax assets	5,803	4,840
Financial assets at fair value through other comprehensive income	7,907	6,214
Other assets	<u>12,245</u>	<u>11,753</u>
	<u>397,139</u>	<u>399,245</u>
<b>Current assets</b>		
Inventories and consumables	4,386	3,728
Accounts receivable, net	11,281	9,286
Prepayments and other current assets	6,027	5,115
Amounts due from related parties	31	50
Amounts due from domestic carriers	1,166	1,261
Short-term bank deposits	320	273
Cash and cash equivalents	<u>14,778</u>	<u>22,495</u>
	<u>37,989</u>	<u>42,208</u>
<b>Total assets</b>	<u><u>435,128</u></u>	<u><u>441,453</u></u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	2,311	2,310
Share premium	173,472	173,436
Reserves	(19,544)	(18,273)
Retained profits		
- Proposed 2010 final dividend	—	1,885
- Others	<u>50,761</u>	<u>46,483</u>
<b>Total equity</b>	<u><u>207,000</u></u>	<u><u>205,841</u></u>

	<b>30 September 2011</b>	<b>31 December 2010</b> <b>As restated</b> <b>(Note 2(a))</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Long-term bank loans	1,414	1,462
Promissory notes	15,000	15,000
Convertible bonds	11,204	11,558
Corporate bonds	7,000	7,000
Deferred income tax liabilities	15	22
Deferred revenue	1,938	2,171
Other obligations	<u>157</u>	<u>162</u>
	<u>36,728</u>	<u>37,375</u>
<b>Current liabilities</b>		
Accounts payables and accrued liabilities	88,994	97,659
Taxes payable	1,758	1,484
Amounts due to ultimate holding company	346	229
Amounts due to related parties	5,051	5,191
Amounts due to domestic carriers	1,239	873
Commercial papers	23,000	23,000
Short-term bank loans	33,595	36,727
Current portion of long-term bank loans	51	58
Dividend payable	479	431
Current portion of deferred revenue	964	1,042
Current portion of other obligations	2,614	2,637
Advances from customers	<u>33,309</u>	<u>28,906</u>
	<u>191,400</u>	<u>198,237</u>
<b>Total liabilities</b>	<u>228,128</u>	<u>235,612</u>
<b>Total equity and liabilities</b>	<u>435,128</u>	<u>441,453</u>
<b>Net current liabilities</b>	<u>(153,411)</u>	<u>(156,029)</u>
<b>Total assets less current liabilities</b>	<u>243,728</u>	<u>243,216</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011**  
**(All amounts in RMB millions, except per share data)**

	<b>Nine months ended 30 September</b>	
		<b>2010</b>
		<b>As restated</b>
	<b>Note</b>	<b>2011</b>
		<b>(Note 2(b))</b>
Revenue		126,420
Interconnection charges		(10,151)
Depreciation and amortisation		(40,543)
Networks, operations and support expenses		(19,342)
Employee benefit expenses		(17,195)
Other operating expenses		(32,887)
Finance costs		(1,307)
Interest income		62
Other income - net		504
<b>Profit before income tax</b>		5,662
Income tax expenses		(1,310)
<b>Profit for the period</b>		4,251
<b>Profit attributable to:</b>		
Owners of the parent		4,251
<b>Earnings per share for profit attributable to owners of the parent:</b>		
Basic earnings per share (RMB)	4	0.18
Diluted earnings per share (RMB)	4	0.18

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
 COMPREHENSIVE INCOME  
 FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011  
 (All amounts in RMB millions)**

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>As restated</b>	<b>(Note 2(b))</b>
<b>Profit for the period</b>	<u>4,263</u>	<u>4,251</u>
<b>Other comprehensive loss:</b>		
Changes in fair value of financial assets through other comprehensive income	(1,674)	(1,098)
Tax effect on changes in fair value of financial assets through other comprehensive income	<u>417</u>	<u>268</u>
Changes in fair value of financial assets through other comprehensive income, net of tax	(1,257)	(830)
Currency translation differences	<u>(14)</u>	<u>(32)</u>
<b>Other comprehensive loss for the period, net of tax</b>	<u>(1,271)</u>	<u>(862)</u>
<b>Total comprehensive income for the period</b>	<u><u>2,992</u></u>	<u><u>3,389</u></u>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	<u><u>2,992</u></u>	<u><u>3,389</u></u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011  
(All amounts in RMB millions)**

		<b>Nine months ended</b>	
		<b>30 September</b>	
	<u>Note</u>	<u>2011</u>	<u>2010</u>
<b>Net cash inflow from operating activities</b>		53,296	58,653
<b>Net cash outflow from investing activities</b>	(a)	(56,597)	(56,924)
<b>Net cash (outflow)/ inflow from financing activities</b>		<u>(4,416)</u>	<u>1,042</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(7,717)	2,771
Cash and cash equivalents, beginning of period		<u>22,495</u>	<u>7,820</u>
Cash and cash equivalents, end of period		<u><u>14,778</u></u>	<u><u>10,591</u></u>
<b>Analysis of the balances of cash and cash equivalents:</b>			
Cash balances		6	7
Bank balances		<u>14,772</u>	<u>10,584</u>
		<u><u>14,778</u></u>	<u><u>10,591</u></u>

- (a) The amount of net cash outflow from investing activities for the nine months ended 30 September 2010 included the proceeds of approximately RMB5,121 million received in relation to disposal of the CDMA business in 2008.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011**

**1. GENERAL INFORMATION**

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 activities of the Company are investment holding and the Company’s subsidiaries are principally engaged in the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The Company and its subsidiaries are hereinafter referred to as the “Group”.

**2. BASIS OF PREPARATION**

Except for (a) described below, the basis of preparation and the significant accounting policies and estimates adopted in the preparation of the unaudited condensed consolidated financial information for the nine months ended 30 September 2011 are consistent with those used in preparing the annual financial statements for the year ended 31 December 2010.

**(a) Early Adoption of IFRS/HKFRS 9**

On 1 January 2011, the Group early adopted IFRS/HKFRS 9 “Financial Instruments”. IFRS/HKFRS 9 requires an entity to classify its financial assets into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and the classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

Upon the adoption of the standard, the Group:

- Classified its investments in equity instruments as those measured at fair value;
- Made an irrevocable election to recognise changes in fair value of these financial assets only through other comprehensive income. As a result of this election, all subsequent fair value or disposal gains/losses will not be recognised in the statement of income; and
- Transferred the balance of available-for-sale fair value reserve to investment valuation reserve.

There was no impact on the Group’s accounting for financial liabilities, as the new standard only affect the accounting for financial liabilities that are designated at fair value through profit and loss, and the Group did not have any such liabilities. For details, please refer to Note 3(a) set out in the unaudited condensed consolidated interim financial information included in the Company’s 2011 Interim Report.

**(b) Revenue Recognition on Sales of Services and Goods**

The Group offers promotional packages to the customers which include the bundled sale of mobile handset and provision of services. Prior to the fourth quarter of 2010, the Group determined the amount of revenue allocated to the handset using the residual value method. Under such method, the Group determined the revenue from the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration. The Group recognised revenue related to the sale of the handset when the title is passed to the customer whereas service revenue was recognised based upon the actual usage of mobile services. The cost of the mobile handset was expensed immediately to the statement of income.

During 2010, the Group has offered preferential promotional packages with more attractive terms to new subscribers, and more new subscribers were developed under such preferential packages during the year. In order to provide reliable and more relevant information to users of the financial statements, starting from the fourth quarter of 2010, the Group determined to adopt the accounting policy of relative fair value method retrospectively from 1 January 2010 to account for such preferential promotional packages, considering that each deliverable in the promotional packages has standalone value to the customer and there is objective and reliable evidence of the fair value regarding each deliverable in the services packages. Under the relative fair value method, the total contract consideration of such preferential packages is allocated to service revenue and sales of handsets based on their relative fair values. Revenue relating to the sale of the handset is recognised when the title is passed to the customer whereas service revenue is recognised based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income upon revenue recognition. For details, please refer to Note 2.24(a) set out in the financial statements included in the Company's 2010 Annual Report.

This change in accounting policy resulted in an increase in the Group's revenue, profit before income tax, profit for the period and earnings per share of RMB1,131 million, RMB1,131 million, RMB983 million and RMB0.04 respectively, for the nine months ended 30 September 2010; and a decrease in advances from customers of RMB1,356 million as at 30 September 2010. The 2010 comparative figures have been restated accordingly.

**(c) Going Concern Assumption**

As at 30 September 2011, current liabilities of the Group exceeded current assets by approximately RMB153.4 billion (31 December 2010: approximately RMB156.0 billion). Given the current global economic conditions and the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the Group's available sources of funds as follows:

- The Group's continuous net cash inflow from operating activities;
- Approximately RMB202.1 billion of revolving banking facilities and registered quota of commercial papers, of which approximately RMB149.5 billion was unutilised as at 30 September 2011; and
- Other available sources of financing from domestic banks and other financial institutions given the Group's credit history.

In addition, the Group will continue to optimise its fund raising strategy from the short, medium and long-term perspectives and will maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the unaudited condensed consolidated financial information of the Group for the nine months ended 30 September 2011 has been prepared on a going concern basis.

(d) **Renewal of Continuing Connected Transactions in October 2010**

The Group renewed the continuing connected transactions on 29 October 2010 which became effective on 1 January 2011. For details, please refer to Note 39.1(d) set out in the financial statements included in the Company's 2010 Annual Report.

**3. AGREEMENT ON ADDITIONAL INVESTMENTS BETWEEN THE COMPANY AND TELEFÓNICA S.A.**

On 23 January 2011, the Company entered into an agreement to enhance the strategic alliance with Telefónica S.A. ("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. Please refer to the section headed "**AGREEMENT TO ENHANCE THE STRATEGIC ALLIANCE WITH TELEFÓNICA**" for details.

**4. EARNINGS PER SHARE**

Basic earnings per share for the nine months ended 30 September 2011 and 2010 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the periods.

Diluted earnings per share for the nine months ended 30 September 2011 and 2010 were computed by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the periods, after adjusting for the effects of dilutive potential ordinary shares. All potential ordinary shares for the nine months ended 30 September 2011 arose from (i) share options granted under the amended Share Option Scheme; (ii) share options granted under the amended Special Purpose Share Option Scheme and (iii) convertible bonds, while all potential ordinary shares for the nine months ended 30 September 2010 arose from (i) share options granted under the amended Share Option Scheme; and (ii) share options granted under the amended Special Purpose Share Option Scheme.

For the nine months ended 30 September 2010, the potential ordinary shares which are not dilutive arose from share options with exercise price of HKD15.42 granted under the amended Share Option Scheme, which were excluded from the weighted average number of ordinary shares for the purpose of computation of diluted earnings per share.

For the nine months ended 30 September 2011, share options with exercise price of HKD15.42 granted under the amended Share Option Scheme were lapsed.

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

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<u>2011</u>	<u>As restated</u>
Numerator (in RMB millions):		
Profit attributable to owners of the parent used in computing basic earnings per share	4,263	4,251
Imputed finance cost on the liability component of convertible bonds	<u>161</u>	<u>—</u>
Profit attributable to owners of the parent used in computing diluted earnings per share	<u>4,424</u>	<u>4,251</u>
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	23,563	23,562
Dilutive equivalent shares arising from share options	217	134
Dilutive equivalent shares arising from convertible bonds	<u>900</u>	<u>—</u>
Shares used in computing diluted earnings per share	<u>24,680</u>	<u>23,696</u>
Basic earnings per share (in RMB)	<u>0.18</u>	<u>0.18</u>
Diluted earnings per share (in RMB)	<u>0.18</u>	<u>0.18</u>

## 5. EVENTS AFTER THE REPORTING PERIOD

On 20 October 2011, China United Network Communications Corporation Limited issued the second tranche of commercial paper for the year 2011 in the amount of RMB8 billion. The paper has maturity period of 366 days and carries interests at 5.78% per annum.

## FINANCIAL OUTLINE<sup>1</sup>

In the first three quarters of 2011, the Company maintained a healthy, positive and upward development trend.

### *Revenue*

In the first three quarters of 2011, total revenue would reach RMB155.918 billion or increase by 23.5% as compared to the same period of last year. Out of the total revenue, service revenue would reach RMB137.795 billion, or increase by 13.2% as compared to the same period of last year.

**Continuous rapid growth in the mobile business.** In the first three quarters of 2011, revenue from the mobile business was RMB93.964 billion or increased by 44.8% as compared to the same period of last year. Out of the revenue from the mobile business, service revenue was RMB75.888 billion or increased by 25.6% as compared to the same period of last year. Value-added service revenue from the mobile business was RMB27.333 billion, and as a percentage of service revenue from the mobile business, there was an increase from 31.4% in the first three quarters of 2010 to 36.0% in the first three quarters of 2011. The net addition of mobile subscribers was 21.608 million in the first three quarters of 2011, and the total number of mobile subscribers reached 189.034 million as at 30 September 2011. The average revenue per user per month (“ARPU”) of mobile business was RMB47.4, representing an increase of 9.0% from the same period of last year.

GSM business maintained steady growth in the first three quarters of 2011, and the service revenue from GSM business was RMB53.696 billion, up by 1.0% from the same period of last year. The net addition of GSM subscribers was 5.438 million in the first three quarters of 2011, and the total number of GSM subscribers reached 158.804 million as at 30 September 2011. The ARPU of GSM business was RMB38.1, and the average minutes of usage per subscriber per month (“MOU”) was 258.8 minutes. 3G mobile business continued to grow rapidly. Service revenue from 3G mobile business was RMB22.192 billion, and as a percentage of service revenue from the mobile business, there was an increase from 12.0% in the first three quarters of 2010 to 29.2% in the first three quarters of 2011. The net addition of 3G mobile subscribers was 16.170 million in the first three quarters of 2011, and the total number of 3G mobile subscribers reached 30.230 million as at 30 September 2011. The ARPU of 3G mobile business was RMB115.0, the MOU was 658.0 minutes and the average monthly data usage per subscriber was 270M.

**Stable development in the fixed-line business.** In the first three quarters of 2011, revenue from the fixed-line business would reach RMB61.286 billion or increase by 2.2% as compared to the same period of last year. Out of the revenue from the fixed-line business, service revenue from the fixed-lined business would reach RMB61.239 billion or increase by

2.3% as compared to the same period of last year. Non-voice revenue from the fixed-line business was RMB38.575 billion, and as a percentage of service revenue from the fixed-line business, there was an increase from 54.6% in the first three quarters of 2010 to 63.0% in the first three quarters of 2011.

Service revenue from broadband business was RMB26.092 billion, up by 18.1% from the same period of last year. As a percentage of service revenue from the fixed-line business, there was an increase from 36.9% in the first three quarters of 2010 to 42.6% in the first three quarters of 2011. The net addition of broadband subscribers was 7.313 million in the first three quarters of 2011, and the total number of broadband service subscribers reached 54.537 million as at 30 September 2011. The ARPU of broadband business was RMB56.9. Service revenue from local telephone business was RMB26.129 billion, down by 14.8% from the same period of last year. The net reduction in local telephone subscribers was 2.060 million in the first three quarters of 2011, and the total number of local telephone service subscribers reached 94.575 million as at 30 September 2011. The ARPU of local telephone business was RMB26.2.

### *Costs and Expenses*

Due to the factors including the expansion of Company's network capacity, rapid business growth and the higher inflation rate, the Company continued to face the pressure of increased costs. In the first three quarters of 2011, total costs and expenses<sup>2</sup> were RMB150.271 billion, up by 24.3% from the same period of last year.

The Company further optimised network coverage and enhanced network quality. Due to the increase in assets, the depreciation and amortisation increased to RMB42.941 billion in the first three quarters of 2011, representing an increase of RMB2.398 billion or 5.9% from the same period of last year. Due to the increase in utilities charges and rental expenses, networks, operations and support expenses were RMB21.523 billion in the first three quarters of 2011, representing an increase of RMB2.181 billion or 11.3% from the same period of last year.

As the Company continued the market promotion of its businesses, selling and marketing expenses were RMB20.634 billion in the first three quarters of 2011, increased by RMB3.524 billion or 20.6% from the same period of last year. 3G handset subsidy cost was RMB4.156 billion, increased by RMB2.890 billion from the same period of last year.

Due to the higher inflation rate and the increases in average social wages, employee insurance costs and motivation bonus, the Company's employee benefit expenses were RMB19.431 billion in the first three quarters of 2011, increased by RMB2.236 billion or 13.0% from the same period of last year.

## *Earnings*

In the first three quarters of 2011, profit before income tax would be RMB5.647 billion, and the profit for the period would be RMB4.248 billion, up by 4.1% from the same period of last year. Basic earnings per share<sup>1</sup> was RMB0.181. EBITDA<sup>3</sup> would be RMB48.574 billion, up by 4.1% as compared to the same period of last year. EBITDA margin (EBITDA as a percentage of the total revenue) would be 31.2%.

Note 1: Except for earnings per share, all revenue and profit figures mentioned above excluded deferred fixed-line upfront connection fees of RMB15 million for the first three quarters of 2011 and RMB169 million for the first three quarters of 2010.

Note 2: Including interconnection charges, depreciation and amortisation, networks, operations and support expenses, employee benefit expenses, other operating expenses, finance costs, interest income and other income-net.

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

## **AGREEMENT TO ENHANCE THE STRATEGIC ALLIANCE WITH TELEFÓNICA**

On 23 January 2011, the Company and Telefónica entered into an Agreement to Enhance the Strategic Alliance (the “Agreement to Enhance the Strategic Alliance”).

Pursuant to the Agreement to Enhance the Strategic Alliance, the Company acquired from Telefónica 21,827,499 ordinary shares of Euro1.00 each in the capital of Telefónica for an aggregate purchase price of Euro374,559,882.84 on 25 January 2011, and Telefónica agreed to purchase ordinary shares of HKD0.10 each in the capital of the Company for the aggregate consideration of USD500,000,000 through acquisitions from third parties within nine months after the date of the signing of the Agreement to Enhance the Strategic Alliance. Such acquisitions of ordinary shares in the Company by Telefónica have been completed in accordance with the terms of the Agreement to Enhance the Strategic Alliance.

Under the Agreement to Enhance the Strategic Alliance, the Company and Telefónica further agreed to enhance their existing strategic alliance and to deepen their cooperation in procurement, mobile service platforms, service to multinational customers, wholesale carriers, roaming, technology/research and development, international business development, cooperation and the sharing of best practices. Furthermore, Mr. Chang Xiaobing was appointed as a director to the Board of Telefónica in May 2011 pursuant to the Agreement to Enhance the Strategic Alliance.

Please refer to the Company’s announcement dated 23 January 2011 for details.

## CAUTION STATEMENT

The Board wishes to remind investors that the unaudited financial information and the financial outline for the nine months ended 30 September 2011 are based on the Group's internal records and management accounts and have not been reviewed or audited by the auditors. The financial information for the nine months ended 30 September 2010 are extracted from the unaudited financial information of the Group and has been restated; and the financial information for the year ended 31 December 2010 are extracted from the audited financial statements as contained in the 2010 Annual Report and has been restated.

Investors are cautioned not to unduly rely on financial data, statistics and comparison for the nine months ended 30 September 2011. **In the meantime, investors are advised to exercise caution in dealing in the shares of the Company.**

*As at the date of this announcement, the board of directors of the Company comprises:*

Executive directors:	Chang Xiaobing, Lu Yimin, Tong Jilu and Li Fushen
Non-executive director:	Cesareo Alierta Izuel
Independent non-executive directors:	Cheung Wing Lam Linus, Wong Wai Ming, John Lawson Thornton, Timpson Chung Shui Ming and Cai Hongbin

By Order of the Board of  
**China Unicom (Hong Kong) Limited**  
**Chu Ka Yee**  
*Company Secretary*

Hong Kong, 27 October 2011