

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Six Months Ended 30 June 2022

(All amounts in RMB millions unless otherwise stated)

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of voice usage, broadband and mobile data services, data and internet application services, other value-added services, transmission lines usage and associated services and sales of telecommunications products. The Company and its subsidiaries are hereinafter referred to as the "Group". The address of the Company's registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 22 June 2000 and the American Depository Shares ("ADSs") of the Company were listed on the New York Stock Exchange on 21 June 2000. The New York Stock Exchange LLC filed Form 25 with the United States Securities and Exchange Commission on 7 May 2021 and the delisting of the Company's ADSs has taken effect on 18 May 2021.

The substantial shareholders of the Company are China Unicom (BVI) Limited ("Unicom BVI") and China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI"). The majority of equity interests in Unicom BVI is owned by China United Network Communications Limited (hereinafter referred to as "A Share Company"), a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002.

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

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 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 2022 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 2021. 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 2021 Annual Report and there have been no significant changes in any financial risk management policies for the six months ended 30 June 2022.

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## **2. BASIS OF PREPARATION (Continued)**

The financial information relating to the year ended 31 December 2021 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 2021 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 2022, current liabilities of the Group exceeded current assets by approximately RMB94.4 billion (31 December 2021: approximately RMB110.0 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 RMB246.8 billion of revolving banking facilities of which approximately RMB237.4 billion was unutilised as at 30 June 2022; 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 2022 have been prepared on a going concern basis.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The unaudited condensed 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 amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

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

- Amendments to HKFRS 3, "Reference to the Conceptual Framework"
- Amendments to HKAS 16, "Property, Plant and Equipment — Proceeds before Intended Use"
- Amendments to HKAS 37, "Onerous Contracts — Cost of Fulfilling a Contract"
- Amendments to HKFRSs, "Annual Improvements to HKFRSs 2018-2020"

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

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### 5. REVENUE

Revenue from telecommunications services are subject to value-added tax ("VAT") and 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:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
Voice usage and monthly fees	<b>10,620</b>	11,247
Broadband and mobile data services	<b>78,335</b>	77,533
Data and internet application services	<b>40,371</b>	31,110
Other value-added services	<b>12,799</b>	11,508
Interconnection fees	<b>6,322</b>	6,266
Transmission lines usage and associated services	<b>10,071</b>	8,859
Other services	<b>2,453</b>	2,151
Total service revenue	<b>160,971</b>	148,674
Sales of telecommunications products	<b>15,290</b>	15,500
Total	<b>176,261</b>	164,174
Include: Revenue from contracts with customers within the scope of HKFRS 15, "Revenue from Contracts with Customers"	<b>175,641</b>	163,583
Revenue from other sources	<b>620</b>	591

## 6. NETWORK, OPERATION AND SUPPORT EXPENSES

	Notes	Six months ended 30 June	
		2022	2021
Repairs and maintenance		<b>5,636</b>	5,520
Power and water charges		<b>7,212</b>	6,687
Charges for use of network, premises, equipment and facilities	(i)	<b>7,426</b>	6,391
Charges for use of tower assets	(ii)	<b>5,463</b>	5,429
Others		<b>1,107</b>	1,080
		<b>26,844</b>	25,107

- (i) During the six months ended 30 June 2022 and 2021, 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 2022 and 2021, 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	
		2022	2021
Salaries and wages		<b>24,936</b>	24,198
Contributions to defined contribution pension schemes		<b>4,027</b>	3,602
Contributions to medical insurance		<b>1,521</b>	1,343
Contributions to housing fund		<b>1,968</b>	1,762
Other housing benefits		<b>18</b>	8
Share-based compensation	32	<b>7</b>	78
		<b>32,477</b>	30,991

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### 8. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
Handsets and other telecommunications products	<b>14,285</b>	14,559
Others	<b>284</b>	249
	<b>14,569</b>	14,808

### 9. OTHER OPERATING EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
Impairment losses under expected credit loss ("ECL"), net of reversal	<b>3,287</b>	2,699
Write-down of inventories and impairment losses of other assets	<b>250</b>	203
Commission and other service expenses	<b>11,884</b>	11,568
Advertising and promotion expenses	<b>1,072</b>	1,061
Internet access terminal maintenance expenses	<b>1,088</b>	874
Customer retention costs	<b>1,444</b>	1,522
Property management fee	<b>1,306</b>	1,241
Office and administrative expenses	<b>544</b>	624
Transportation expense	<b>569</b>	645
Miscellaneous taxes and fees	<b>703</b>	662
Service technical support expenses	<b>20,137</b>	13,643
Repairs and maintenance expenses	<b>202</b>	250
Loss on disposal of property, plant and equipment	<b>1,180</b>	1,479
Others	<b>1,980</b>	2,061
	<b>45,646</b>	38,532

## 10. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
Finance costs:		
— Interest on bank loans repayable within 5 years and other interests	<b>59</b>	33
— Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years	<b>70</b>	76
— Interest on lease liabilities	<b>434</b>	515
— Interest on related party loans repayable within 5 years	<b>16</b>	44
— Interest on bank loans repayable over 5 years	<b>9</b>	14
— Less: Amount capitalised in construction-in-progress ("CIP")	<b>(18)</b>	(84)
Total interest expense	<b>570</b>	598
Net exchange (gain)/loss	<b>(69)</b>	5
Others	<b>24</b>	42
	<b>525</b>	645

## 11. OTHER INCOME — NET

	Six months ended 30 June	
	2022	2021
Dividend from financial assets measured at FVOCI (non-recycling)	<b>67</b>	101
Government grants	<b>301</b>	177
Additional deduction for VAT and others	<b>1,086</b>	799
Investment income from debt securities measured at FVOCI (recycling)	<b>280</b>	403
Fair value gains on financial assets measured at fair value through profit or loss ("FVPL")	<b>5</b>	49
Gains on disposal of financial assets measured at FVPL	<b>3</b>	—
	<b>1,742</b>	1,529

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### 12. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (for the six months ended 30 June 2021: 16.5%) on the estimated assessable profits for the six months ended 30 June 2022. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for the six months ended 30 June 2022 at the rates of taxation prevailing in the jurisdictions in which the Group operates. The Company's subsidiaries operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (for the six months ended 30 June 2021: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (for the six months ended 30 June 2021: 15%).

	Six months ended 30 June	
	2022	2021
Provision for income tax on estimated taxable profits for the period		
— Hong Kong	38	33
— Mainland China and other jurisdictions	3,088	2,910
Over provision in respect of prior years	(15)	(67)
	<b>3,111</b>	2,876
Deferred taxation	(691)	(795)
	<b>2,420</b>	2,081

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

	Notes	Six months ended 30 June	
		2022	2021
Profit before income tax		<b>13,416</b>	11,289
Expected income tax expenses at PRC statutory tax rate of 25%		3,354	2,822
Impact of different tax rate outside Mainland China		(24)	(17)
Tax effect of preferential tax rate	(i)	(190)	(126)
Additional deduction for qualified research and development costs	(i)	(372)	(207)
Tax effect of non-deductible expenses		145	182
Tax effect of non-taxable income from share of net profit of joint ventures		(230)	(180)
Tax effect of non-taxable income from share of net profit of associates	(ii)	(226)	(243)
Over provision in respect of prior years		(15)	(67)
Tax effect of unused tax losses not recognised, net of utilisation	(iii)	(22)	(83)
		<b>2,420</b>	2,081
Actual tax expenses			

## 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 2021: 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 2021: 15%), and certain research and development costs of the Group's PRC subsidiaries are qualified for 75% (for the six months ended 30 June 2021: 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 2022, the Group did not recognise deferred tax assets of approximately RMB29 million (31 December 2021: approximately RMB51 million) in respect of tax losses amounting to approximately RMB116 million (31 December 2021: approximately 203 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 2027 or 2032.

As at 30 June 2022, the Group did not recognise deferred tax assets of RMB2,318 million (31 December 2021: RMB2,419 million) in respect of changes in fair value of financial assets measured at FVOCI (non-recycling), since it is not probable that the related tax benefit will be realised.

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

	Six months ended 30 June	
	2022	2021
<b>Net deferred tax assets after offsetting:</b>		
— Balance at 1 January 2022 and 2021	271	745
— Deferred tax credited to statement of income	395	792
— Deferred tax credited to other comprehensive income	1	—
— Balance at 30 June 2022 and 2021	<b>667</b>	1,537
<b>Net deferred tax liabilities after offsetting:</b>		
— Balance at 1 January 2022 and 2021	(417)	(64)
— Deferred tax credited to statement of income	296	3
— Deferred tax charged to other comprehensive income	(1)	(2)
— Balance at 30 June 2022 and 2021	<b>(122)</b>	(63)

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### 13. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2022 and 2021 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 2022 and 2021 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 2022 and 2021.

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic/diluted earnings per share	<b>10,957</b>	9,167
Denominator (in millions):		
Number of ordinary shares outstanding used in computing basic/diluted earnings per share	<b>30,598</b>	30,598
Basic/Diluted earnings per share (in RMB)	<b>0.36</b>	0.30

## 14. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the six months ended 30 June 2022 and 2021 are as follows:

	Six months ended 30 June 2022					
	Buildings	Tele- communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
<b>Cost:</b>						
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
<b>Accumulated depreciation and impairment:</b>						
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)
<b>Net book value:</b>						
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

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

The movements of property, plant and equipment for the six months ended 30 June 2022 and 2021 are as follows: (Continued)

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

### 15. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2022, 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 RMB4,342 million (for the six months ended 30 June 2021: RMB3,986 million).

## 16. FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Notes	30 June 2022	31 December 2021
Non-current portion:			
Equity securities measured at FVOCI (non-recycling)	(i)	2,427	2,006
Financial assets measured at FVPL	(ii)	805	803
Debt securities measured at FVOCI (recycling)	(iii)	972	906
		4,204	3,715
Current portion:			
Financial assets measured at FVPL	(ii)	3,260	3,287
Debt securities measured at FVOCI (recycling)	(iii)	12,181	25,724
		15,441	29,011
		19,645	32,726

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

	Note	30 June 2022	31 December 2021
Listed in the PRC		126	117
Listed outside the PRC	30	2,188	1,786
Unlisted		113	103
		2,427	2,006

- (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. As at 30 June 2022, RMB3,338 million debt securities measured at FVOCI were regarded as "collateral" of the financial assets sold under repurchase agreement (31 December 2021: Nil), and the corresponding liability was included in amounts due to banks and other financial institutions as detailed in Note 27.

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### 17. OTHER ASSETS

	Note	30 June 2022	31 December 2021
Intangible assets		<b>13,419</b>	13,367
Prepaid services charges for transmission lines and electricity cables and other services		<b>1,432</b>	1,361
VAT recoverable	(i)	<b>166</b>	171
Others		<b>3,697</b>	2,783
		<b>18,714</b>	17,682

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

### 18. ACCOUNTS RECEIVABLE

		30 June 2022	31 December 2021
Accounts receivable		<b>46,396</b>	28,127
Less: Credit loss allowance		<b>(13,352)</b>	(10,170)
		<b>33,044</b>	17,957

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

		30 June 2022	31 December 2021
Within one month		<b>16,732</b>	10,620
One month to three months		<b>6,381</b>	3,061
Three months to one year		<b>8,903</b>	3,519
More than one year		<b>1,028</b>	757
		<b>33,044</b>	17,957

## 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. The Covid-19 pandemic since early 2020 has brought about additional uncertainties in the operations and financial position of the Group's customers. The Group has considered the impact of Covid-19 when evaluating the forward-looking information used in the ECL model including assessing the risk factors associated with various customer sectors.

## 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 2022	31 December 2021
Prepaid services charges for transmission lines and electricity cables and other services		4,014	3,935
Prepaid power and water charges		654	766
Deposits and prepayments		4,275	3,581
VAT recoverable	(i)	6,327	6,193
Prepaid enterprise income tax		20	25
Others		3,428	3,425
		<b>18,718</b>	<b>17,925</b>

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

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

As at 30 June 2022 and 31 December 2021, 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.

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### 21. SHARE CAPITAL

<b>Issued and fully paid:</b>	<b>Number of shares millions</b>	<b>Share capital</b>
At 1 January 2021, at 31 December 2021 and at 30 June 2022	30,598	254,056

### 22. DIVIDENDS

At the annual general meeting held on 12 May 2022, the shareholders of the Company approved the payment of final dividend of RMB0.096 per ordinary share for the year ended 31 December 2021 totaling approximately RMB2,937 million (for the six months ended 30 June 2021: final dividend for the year ended 31 December 2020 of RMB0.164 per ordinary share, totaling approximately RMB5,018 million) which has been reflected as a reduction of retained profits for the six months ended 30 June 2022.

At a meeting held on 8 August 2022, the Board of Directors of the Company declared 2022 interim dividend of RMB0.165 per ordinary share to the shareholders totaling approximately RMB5,049 million (for the six months ended 30 June 2021: 2021 interim dividend of RMB0.120 per ordinary share totaling approximately RMB3,672 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 Administration of Taxation of the PRC, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 30 June 2022 and 31 December 2021, 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

	<b>Interest rates and final maturity</b>	<b>30 June 2022</b>	31 December 2021
RMB denominated bank loans	Fixed interest rates ranging from 1.08% to 1.20% (31 December 2021: 1.08% to 1.20%) per annum with maturity through 2036 (31 December 2021: maturity through 2036)	1,863	2,015
US dollars denominated bank loans	Fixed interest rates ranging from Nil to 1.55% (31 December 2021: Nil to 1.55%) per annum with maturity through 2039 (31 December 2021: maturity through 2039)	177	178
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (31 December 2021: 1.10% to 2.50%) per annum with maturity through 2034 (31 December 2021: maturity through 2034)	12	14
Sub-total		2,052	2,207
Less: Current portion		(376)	(372)
		1,676	1,835

As at 30 June 2022, long-term bank loans of approximately RMB42 million (31 December 2021: approximately RMB42 million) were guaranteed by third parties.

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

	<b>30 June 2022</b>	31 December 2021
Balances due:		
— No later than one year	376	372
— More than one year and no later than two years	351	362
— More than two years and no later than five years	771	830
— More than five years	554	643
	2,052	2,207
Less: Portion classified as current liabilities	(376)	(372)
	1,676	1,835

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## **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.

## 25. CORPORATE BONDS

On 7 June 2016, CUCL issued RMB1 billion 5-year corporate bonds, bearing interest at 3.43% per annum, which were fully repaid in June 2021.

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**

<b>Interest rates and final maturity</b>	<b>30 June 2022</b>	<b>31 December 2021</b>	
RMB denominated bank loans	Fixed interest rates ranging from 1.85% to 5.00% (31 December 2021: ranging from 1.80% to 1.85%) per annum with maturity through 2023 (31 December 2021: maturity through 2022)	462	385

## **27. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

Amounts due to banks and other financial institutions include the proceeds received from financial assets sold subject to repurchase agreement and placements from banks arising from the ordinary course of business of Unicorn Group Finance Company Limited ("Finance Company"). Sale and repurchase agreement is a transaction in which Finance Company sells a financial asset and simultaneously agrees to repurchase it at a fixed price at the agreed date. As the Group retains substantially all the risks and rewards of ownership of those financial assets transferred, these financial assets are not derecognised but regarded as "collateral" for the proceeds received. As at 30 June 2022, the proceeds received from financial assets sold subject to repurchase agreement and placements from banks amounted to RMB3 billion at fixed interest rate of 2.50% per annum (31 December 2021: Nil) and RMB3 billion at fixed interest rates ranging from 1.95% per annum to 2.50% per annum (31 December 2021: Nil), respectively, both of which were fully repaid on 1 July 2022.

## **28. COMMERCIAL PAPERS**

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

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

## 28. COMMERCIAL PAPERS (Continued)

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

On 23 June 2021, CUCL issued tranche one of 2021 super short term commercial papers in an amount of RMB2 billion, with a maturity period of 270 days from the date of issue which carried interest at 2.80% per annum, and were 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 were 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 were fully repaid in January 2022.

## 29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30 June 2022	31 December 2021
Payables to contractors and equipment suppliers	<b>78,022</b>	75,014
Payables to telecommunications products suppliers	<b>4,551</b>	4,281
Customer/contractor deposits	<b>5,197</b>	5,128
Repair and maintenance expense payables	<b>6,287</b>	6,587
Salary and welfare payables	<b>17,029</b>	13,196
Amounts due to technical support services and other service providers/ content providers	<b>7,944</b>	5,822
VAT received from customers in advance	<b>3,238</b>	3,709
Accrued expenses	<b>20,708</b>	19,098
Others	<b>7,679</b>	7,289
	<b>150,655</b>	140,124

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### **29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Continued)**

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

	<b>30 June 2022</b>	<b>31 December 2021</b>
Less than six months	126,757	119,332
Six months to one year	7,772	7,199
More than one year	16,126	13,593
	<b>150,655</b>	140,124

### **30. 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 2022, the related financial assets measured at FVOCI amounted to approximately RMB2,188 million (31 December 2021: approximately RMB1,786 million). For the six months ended 30 June 2022, the increase in fair value of the financial assets measured at FVOCI was approximately RMB402 million (for the six months ended 30 June 2021: increase of approximately RMB273 million), has been recorded in the unaudited condensed consolidated statement of comprehensive income.

### **31. 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 2022 and 31 December 2021.

### **32. 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 them (the "Participants", including certain core employees of the Company's subsidiaries) on 21 March 2018 and 1 February 2019 (the "Grant Dates"), respectively, with a subscription price of RMB3.79 per share. The fair value of the 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 first batch as well as the second Lock-Up Period of approximately 3 years for the second batch have expired during the current period. With the fulfilment of the vesting conditions, the Phase I Restricted Shares of 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 2022, the Phase I Restricted Shares of 3,261,600 (for the six months ended 30 June 2021: 3,742,200) were forfeited and repurchased.

For the six months ended 30 June 2022, the Group recognised share-based payment expenses and other reserves of RMB7 million under the Phase I Restricted A-Share Incentive Scheme (for the six months ended 30 June 2021: RMB78 million).

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## 33. 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, amounts due to banks and other financial institutions, 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 2022:

	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurement:</b>				
Equity securities measured at FVOCI (non-recycling)	2,314	—	113	2,427
Financial assets measured at FVPL	3,141	16	908	4,065
Debt securities measured at FVOCI (recycling)	13,153	—	—	13,153
<b>Total</b>	<b>18,608</b>	<b>16</b>	<b>1,021</b>	<b>19,645</b>

### 33. 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 2021:

	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurement:</b>				
Equity securities measured at FVOCI (non-recycling)	1,903	—	103	2,006
Financial assets measured at FVPL	3,143	42	905	4,090
Debt securities measured at FVOCI (recycling)	26,630	—	—	26,630
<b>Total</b>	<b>31,676</b>	<b>42</b>	<b>1,008</b>	<b>32,726</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 2022 and 2021, 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.

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 33. 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 2022 and 31 December 2021 due to the nature or short maturity of those instruments.

	Carrying amounts			Fair value			Carrying amounts			Fair value		
	as at		as at		Fair value measurements			as at		as at		
	30 June	30 June	2022	2022	as at 30 June 2022 categorised into			31 December	31 December	2021	2021	
					Level 1	Level 2	Level 3					
Non-current portion of long-term bank loans			1,676	1,725	—	1,725	—			1,835	1,900	

The fair value of the non-current portion of long-term bank loans is based on the expected cash flows of principal and interests payment discounted at market rates ranging from 0.57% to 4.35% (31 December 2021: 0.57% to 4.35%) per annum.

## 34. MATERIAL RELATED PARTY TRANSACTIONS

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

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

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.

## 34. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

### 34.1 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	
		2022	2021
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i)	118	55
Rental charges for short-term property leasing and related services charges	(i)	514	485
Charges for short-term lease of telecommunications resources and related services	(i)	115	143
Charges for engineering design and construction services	(i)	737	878
Charges for shared services	(i)	39	41
Charges for materials procurement services	(i)	73	6
Charges for ancillary telecommunications services	(i)	1,483	1,259
Charges for comprehensive support services	(i)	670	444
Income from comprehensive support services	(i)	62	32
Lending by Finance Company to Unicom Group and its subsidiaries	(i)	8,500	8,100
Repayment of loans lending by Finance Company to Unicom Group and its subsidiaries	(i)	8,500	8,100
Interest income from lending services	(i)	169	168

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

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

Amount due from Unicom Group as at 30 June 2022 included loans from Finance Company to Unicom Group of RMB10,400 million in total with respective floating interest rate of Loan Prime Rate ("LPR") published by the National Interbank Funding Center ("NIFC") (31 December 2021: RMB10,400 million with respective floating interest rate of LPR published by the NIFC).

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## 34. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### 34.2 Related party transactions with Tower Company

#### (a) Related Party transactions

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

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

On 31 January 2018, after further arm'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 apply to the leased tower portfolio as confirmed by both parties are effective from 1 January 2018 for a period of five years.

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 RMB9,390 million, and right-of-use assets with the carrying amounts of RMB8,962 million as at 30 June 2022 (31 December 2021: RMB12,407 million and RMB11,807 million, respectively). For the six months ended 30 June 2022, the Group recognised additions of right-of-use assets amounting to RMB1,099 million (for the six months ended 30 June 2021: RMB1,512 million), recorded depreciation of right-of-use asset of RMB3,875 million (for the six months ended 30 June 2021: RMB3,701 million), interest expense of RMB211 million (for the six months ended 30 June 2021: RMB313 million), and variable lease payments and other related service charges of RMB5,463 million (for the six months ended 30 June 2021: RMB5,429 million) in its unaudited condensed consolidated statement of income.

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 2022 was RMB8,154 million (31 December 2021: RMB6,102 million).

##### (ii) Income from data and internet application services and engineering design and construction services

The Group provide data and internet application services and engineering design and construction services, including system integration and engineering design services to Tower Company. Income for the six months ended 30 June 2022 was RMB153 million (for the six months ended 30 June 2021: RMB173 million).

Except as mentioned in Note 34.2(a)(i), amounts due from/to Tower Company are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business in respect of transactions with Tower Company as described above.

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

#### 34.3 Other related party transactions with Unicom Group and its subsidiaries

##### (a) Related party transactions

	Notes	Six months ended 30 June	
		2022	2021
Transactions with Unicom Group and its subsidiaries:			
Interest expenses on unsecured entrusted loan	(i)	16	44
Borrowing of loan	(i)	—	207
Repayment of loan	(i)	—	2,385
Net deposits with Finance Company	(ii)	(2,394)	1,267
Interest expenses on the deposits in Finance Company	(ii)	40	31

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

On 21 May 2021, the Group borrowed an unsecured entrusted loan from Unicom Group BVI of HK dollars 250 million (equivalent to RMB207 million) with floating interest rate at six-month Hong Kong Interbank Offered Rate plus 0.9%, which was fully repaid in September 2021.

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

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

Amount due to Unicom Group and its subsidiaries as at 30 June 2022 included a balance of deposits received by Finance Company from Unicom Group and its subsidiaries of RMB3,696 million with interest rates ranging from 0.42% to 2.75% per annum for saving and fixed deposits of different terms (31 December 2021: RMB6,090 million with interest rates ranging from 0.42% to 2.75% per annum).

Amount due to Unicom Group and its subsidiaries as at 30 June 2022 included a balance of unsecured entrusted loan from A Share Company of RMB 742 million with a maturity period of 5 years and interest rate at 4.28% per annum (31 December 2021: RMB742 million with a maturity period of 5 years and interest rate at 4.28% per annum).

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### 35. CONTINGENCIES AND COMMITMENTS

#### 35.1 Capital commitments

As at 30 June 2022 and 31 December 2021, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	30 June 2022			31 December
	Land and Buildings	Equipment	Total	2021 Total
Authorised and contracted for	2,801	24,690	27,491	26,113
Authorised but not contracted for	9,046	54,137	63,183	53,808
	11,847	78,827	90,674	79,921

#### 35.2 Contingent liabilities

As at 30 June 2022, the Group had no material contingent liabilities and no material financial guarantees issued.

### 36. 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.

### 37. APPROVAL OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 8 August 2022.