Notes to the Financial Statements

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom Limited (the "Company") was incorporated 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 is to engage in investment holding and the provision of GSM and CDMA cellular, data, Internet, long distance and paging services in the PRC. The Company and its subsidiaries are hereinafter referred to as the "Group".

Prior to the incorporation of the Company, the paging business was carried out by Guoxin Paging Corporation Ltd. and its subsidiaries ("Guoxin") whereas the cellular and other telecommunications businesses were carried out by the head office and various branches of China United Telecommunications Corporation ("Unicom Group"). The aforementioned cellular and other telecommunications businesses, other than the paging business, was then restructured into China Unicom Corporation Limited ("CUCL") on 21 April 2000. Both Guoxin and CUCL were then transferred to the Company pursuant to a restructuring in preparation for a global offering of the Company's shares (the "Global Offering"). The Company completed its Global Offering in June 2000 and an aggregate of 2,827,996,050 ordinary shares were issued with listing proceeds amounted to approximately RMB45.3 billion, net of direct listing expenses (See Note 29).

Unicom Group was established as a state-owned enterprise in the PRC in 1994 under the approval of the State Council to build and operate cellular networks, fixed line local networks and fixed line domestic long distance networks in the PRC.

Guoxin was established as a limited liability company in September 1998, and originally operated a nationwide paging business through its 31 subsidiaries in 27 provinces and 4 municipalities in the PRC (the "Paging Business"). By 31 December 2002, Guoxin has already acquired all of the minority interests of 30 subsidiaries. These 30 paging subsidiaries then became the wholly-owned subsidiaries of Guoxin. In addition, Guoxin has deregistered the legal entity status of 28 wholly-owned subsidiaries in 25 provinces and 3 municipalities in the PRC. As of 31 December 2002, minority interests only existed in Unicom Guomai Communications Co. Ltd. ("Unicom Guomai").

Prior to the acquisition of Unicom New Century Telecommunications Corporation Limited, as further explained below, the Group's principal businesses comprised:

i) the GSM cellular businesses in 9 provinces in the PRC, namely, Guangdong, Fujian, Anhui, Jiangsu, Zhejiang, Shandong, Liaoning, Hebei and Hubei; and 3 municipalities, namely, Beijing, Shanghai and Tianjin (the "GSM Business");

ii) the CDMA cellular business in the above service areas, through a leasing arrangement of CDMA network capacities from a subsidiary of Unicom Group (the "CDMA Business", see Note 31);

iii) the nationwide domestic and international Internet protocol-based telephony businesses and the nationwide data and Internet business in major cities of the PRC (the "Data and Internet Business");

iv) the nationwide domestic and international long distance telephony businesses in major cities of the PRC (the "Long Distance Business"); and

v) the nationwide paging business in the PRC.

The GSM Business and the CDMA business are hereinafter collectively refer to as the "Cellular Business".

1. ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Acquisition of Unicom New Century Telecommunications Corporation Limited ("Unicom New Century")

Unicom New Century is a limited liability company established in the PRC on 16 July 2002 to engage in the provision of GSM and CDMA cellular telecommunications services in 8 provinces and 1 municipality in the PRC, namely, Sichuan, Heilongjiang, Jilin, Henan, Jiangxi, Guangxi, Xinjiang, Shannxi and Chongqing. The GSM businesses and the relevant net assets were previously owned and operated by various branches of Unicom Group. Starting from 2002, Unicom New Century has started to operate the CDMA business through the leasing of CDMA network capacity from a subsidiary of Unicom Group (see Note 31).

Unicom Centerarian (BVI) Limited ("UC (BVI)") was incorporated in the British Virgin Islands on 23 October 2002 as a wholly-owned subsidiary of Unicom Group. At the same time, Unicom New Century (BVI) Limited (a wholly-owned subsidiary of UC (BVI), hereinafter referred to as ("UNC (BVI)")) was incorporated in the British Virgin Islands on 23 October 2002. According to the restructuring plan for the acquisition of Unicom New Century and the agreement signed between Unicom Group, UC (BVI) and UNC (BVI) dated 23 October 2002, the entire issued share capital of Unicom New Century were transferred from UC(BVI) to UNC (BVI) through share exchanges.

Pursuant to the ordinary resolution passed by the Company's Directors on 20 November 2002 and extraordinary general meeting passed by the Company's shareholders on 23 December 2002, the Company acquired the entire equity interests of UNC (BVI) by a cash consideration of RMB4.8 billion on 31 December 2002 (the "Acquisition"). Thereafter, Unicom New Century has become a subsidiary of the Company.

The immediate holding company of the Company is CUCL (BVI) Limited ("Unicom BVI"). The majority equity interests of Unicom BVI is owned by China United Telecommunications Corporation Limited (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 Group to be the ultimate parent company.

2. BASIS OF PRESENTATION

The Acquisition of Unicom New Century as described in Note (1) above became effective on 31 December 2002 when the Company gained the ownership of, and control over Unicom New Century, after obtaining the necessary government approvals on the Acquisition and making payment of the purchase consideration on that date. The Company has adopted the purchase methed of accounting for this Acquisition. The net identifiable assets and liabilities acquired are recorded based on their respective fair values as of 31 December 2002, estimated by the Company to be approximately RMB2,544 million.

The results of the subsidiary acquired are included in the consolidated income statement from the date of acquisition. Since the effective date of acquisition was 31 December 2002, the consolidated financial statements did not include the operating results of Unicom New Century, but included the financial position of Unicom New Century as of 31 December 2002.

2. BASIS OF PRESENTATION (continued)

The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain land and building and investments in securities are stated at fair value. They have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") issued by the Hong Kong Society of Accountants ("HKSA"). This basis of accounting differs from that used in the preparation of financial statements for PRC statutory reporting purposes, which were based on the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP").

The principal adjustments made to conform to HK GAAP include the following:

- Reversal of revaluation surplus and related depreciation and amortisation charges arising from the revaluation of assets performed by independent valuers registered in the PRC;
- Additional accrual for certain retirement benefits;
- Additional provision for certain housing benefits;
- Additional capitalisation of borrowing costs;
- Provision for deferred taxation on HK GAAP adjustments; and
- Capitalisation of the direct cost associated with the Acquisition.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out as follows:

(a) Basis of preparation

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised)	Presentation of financial statements
SSAP11 (revised)	Foreign currency translation
SSAP15 (revised)	Cash flow statements
SSAP33	Discontinuing operation
SSAP34 (revised)	Employee benefits

The impact of the adoption of the new aforementioned new standards on the Group's consolidated operating results and financial position is not significant and, accordingly, no prior period adjustment has been made.

The Group has not adopted SSAP 35 "Government grants and disclosure of government assistance" and SSAP 12 "Income taxes", which are effective for periods commencing on or after 1 July 2002 and 1 January 2003 respectively.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Should the Group have adopted the revised SSAP 12 in 2002, it would apply retrospectively. As such, the Group estimated that the opening retained profits as of 1 January 2002 would increase by approximately RMB373,159,000, which represent the deferred tax assets related to the provision of doubtful debts of the GSM Business previously not recognised. This change would result in a decrease in the income tax expense by approximately RMB32,140,000 for the year ended 31 December 2002.

(b) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors; controls more than half of the voting power; or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influences is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued where the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated companies.

Where, in the opinion of the directors, there is an impairment loss of an associated company, permanently reduced below its carrying value, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment loss.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Use of estimates

The preparation of financial statements in conformity with HK GAAP requires management to make estimates and assumptions that affect the reported amount and disclosures. Accordingly, actual results may differ from those estimates and assumptions.

(d) Property, plant and equipment

(i) Land use rights and buildings

Land use rights and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31 March 2000. In the intervening years, the directors review the carrying value of land use rights and buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in land use rights and buildings valuation is credited to the revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the income statement. Upon the disposal of revalued land use rights and buildings, the realised portion of the revaluation reserve is transferred from the valuation reserve to retained profits.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvement, plant, telecommunications equipment, office furniture and fixtures are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to expense in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the assets.

(iii) Depreciation

Land use rights are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated losses over their estimated useful lives on a straight-line basis. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life	Residual value
Land use rights	Over the period of lease	—
Buildings	8 - 40 years	3%
Leasehold improvements	Over the lease term	—
Telecommunications equipment	4 - 15 years	3%
Office furniture, fixtures and other	4 - 14 years	3%

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

(iv) Construction-in-progress

Construction-in-progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period.

No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

(v) Impairment and gains or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets including property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the assets to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which cases it is treated as a revaluation decrease. In determining the recoverable amount, expected future cash flows generated by the property, plant and equipment are discounted to their present values.

Provision for impairment loss is charged to the income statement and classified under "general, administrative and other expenses" as a component of operating expenses. Reversal of impairment losses recognised in prior years is recorded when impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

The gain or loss on disposal of a property, plant and equipment is the differences between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair values of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary/associated company at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised using the straight-line method over the estimated economic lives of the acquired businesses. Goodwill arising on major strategic acquisitions of the Group to expand its geographical market coverage is amortised over 20 years. For all other acquisitions, goodwill is generally amortised over 5 to 7 years.

When later events and circumstances occur which indicate the carrying balance of goodwill may not be recoverable, the unamortised balance is written down to its estimated recoverable amount. Estimated recoverable amount is determined based on estimated discounted future net cash flows of the related business over its remaining life.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Other assets

Other assets mainly represent long term (i) expenditures on facilities for interconnection with other operators, for which the Group has a permanent use right, (ii) prepaid leased lines and rentals and (iii) deferred customer acquisition costs of certain CDMA contractual subscribers.

Expenditures on interconnection facilities are amortised using the straight-line method over the period of benefit of 5 years. Long-term prepaid leased lines and rentals are recognised using a straight-line method over the lease period.

Deferred customer acquisition costs of certain CDMA contractual subscribers represent the cost of CDMA handsets given to certain contractual subscribers under special promotional packages. Deferred customer acquisition costs, to the extent recoverable, are amortised over the contractual period (not exceeding 2 years) to match with the minimum contract revenue. Deferred customer acquisition costs are included in "prepayment and other current assets" when the customer contract is within 1 year, whereas they are recorded as "other assets" when the contract period is over 1 year.

(g) Investments in securities

(i) Investment securities

Equity securities intended to be held on a continuing basis are classified as investment securities and recorded at cost less any provision for impairment loss.

The carrying amounts of investment securities are reviewed at the end of each year to assess whether the fair values have declined below the carrying amounts. When a decline other than a temporary decline has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Upon disposal of investment securities, profit or loss thereon is accounted for in the income statement.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Gains or losses on disposal of trading securities, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with maturity of 3 months or less from the date of investment.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Short-term bank deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to one year.

(j) Accounts receivables and other receivables

Provision is made against accounts receivables and other receivables to the extent they are considered to be doubtful. They are stated in the balance sheet net of such provision.

(k) Inventories

Inventories, which principally comprise handsets, SIM cards, UIM cards, pagers and accessories, are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) Advances from customers

Advances from customers are monthly fees paid by paging subscribers in advance or amounts paid by customers for GSM prepaid cards, GSM and CDMA prepaid service fees, Internet protocol ("IP") telephone cards and other calling cards which cover future telecommunications services (over a period of 3 to 12 months). Customer advances are stated at the amount of proceeds received less the amount already recognised as revenues upon the rendering of services.

(m) Assets under lease

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership remain with the leasing company are accounted for as operating leases. Minimum payments under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Borrowing costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised incurred during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varies from 4.54% to 6.24% for the year ended 31 December 2002 (2001: 5.46% to 7.65%).

(o) Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Revenue recognition

(i) Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and when the revenue and cost can be measured reliably, on the following basis:

- Usage fees are recognised when the service is rendered;
- Monthly fees are recognised as revenue in the month during which the services are rendered;
- Connection fees are recognised as revenue upon activation of service for subscribers;
- Telecommunication calling card sales, which represent prepaid service fees received from subscribers for telephony services, is recorded as advances from subscribers. Revenue is recognised when the related service is rendered upon actual usage of the telephone cards by subscribers;
- Leased line rental income is recognised on a straight-line basis over the lease term; and
- Sales of telecommunications products, such as handsets and accessories, SIM cards, UIM cards and pagers etc, are recognised when title has passed to the buyers.

(ii) Interest income

Interest income from deposits in banks or other financial institutions is recognised on a time proportion basis, taking into account the principal amounts and the interest rates applicable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(q) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB"), which is not freely convertible into foreign currencies. Transactions in foreign currencies are translated at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from changes in exchange rates subsequent to the transaction dates are dealt with in the income statement.

(r) Employee benefits

(i) Retirement benefits

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(ii) Housing benefits

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

(iii) Equity compensation benefits

Share options are granted to directors and employees under the relevant share option schemes approved by the Board of Directors (Note 30). The financial impact of the share option granted is not recorded in the financial statements until such time as the options are exercised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(s) Taxation

(i) Income tax

Income tax is provided on the basis of income for statutory financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for tax purposes.

(ii) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between income as computed for taxation purposes and income as stated in the income statement. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(t) Related parties

Entities are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Entities are also considered to be related if they are subject to common control or common significant influence.

(u) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

(w) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format.

Unallocated costs primarily represent corporate expenses. Segments assets consist primarily of property, plant and equipment, other assets, prepayments, inventories, receivables and operating cash and exclude short-term bank deposits. Segment liabilities comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

(x) Earnings per share and per American Depository Share ("ADS")

Basic earnings per share have been computed by dividing the profit attributable to shareholders by the number of weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share have been computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

Basic and diluted net earnings per ADS have been computed by multiplying the net income per share by 10, which is the number of shares represented by each ADS.

4. OPERATING REVENUE

Operating revenue primarily comprises of usage fees, monthly fees, connection fees, interconnection revenue, leased line rental income and sales of telecommunication products earned by the Group from GSM, CDMA, data, Internet, long distance and paging services. Tariffs for these services are subject to regulations by various government authorities, including the State Development Planning Commission, the Ministry of Information Industry ("MII") and the provincial regulatory authorities.

Operating revenue is net of business tax and government surcharges.

4. OPERATING REVENUE (continued)

The major components of operating revenue are as follows:

	Note	2002 RMB'000	2001 RMB'000
GSM Business			
Usage fee	*(i) (a)*	20,274,987	14,937,448
Monthly fee	*(ii)*	4,169,129	3,660,473
Connection fee	*(iii)*	—	204,986
Interconnection revenue	*(iv)*	1,709,771	1,262,267
Other revenue	*(vi)*	1,234,038	439,884
Total GSM service revenue		27,387,925	20,505,058
CDMA Business			
Usage fee	*(i) (a)*	2,231,050	—
Monthly fee	*(ii)*	713,483	—
Interconnection revenue	*(iv)*	184,296	—
Other revenue	*(vi)*	96,518	—
Total CDMA service revenue		3,225,347	—
Data and Internet Business			
Usage fee	*(i) (b)*	2,069,415	1,581,189
Monthly fee	*(ii)*	9,478	—
Interconnection revenue	*(iv)*	348,248	146,844
Leased lines rental	*(v)*	274,274	64,117
Other revenue	*(vi)*	91,624	28,061
Total Data and Internet service revenue		2,793,039	1,820,211
Long Distance Business			
Usage fee	*(i) (b)*	1,223,051	539,808
Interconnection revenue	*(iv)*	664,302	577,780
Leased lines rental	*(v)*	873,054	363,078
Other revenue	*(vi)*	5,316	8,067
Total Long Distance service revenue		2,765,723	1,488,733

4. OPERATING REVENUE (continued)

	Note	2002 RMB'000	2001 RMB'000
Paging Business			
Monthly fee	*(ii)*	1,912,786	4,141,232
Connection fee	*(iii)*	—	1,595
Interconnection revenue	*(iv)*	113,123	—
Other revenue	*(vi)*	135,279	198,997
Total Paging service revenue		2,161,188	4,341,824
Total service revenue		38,333,222	28,155,826
Sales of telecommunications products		2,243,303	1,237,060
Total operating revenue		40,576,525	29,392,886

Notes:

(i) Usage fees comprise:

(a) charges for incoming and outgoing calls made by cellular subscribers including charges for local calls, domestic direct dial ("DDD") and international direct dial ("IDD") as well as roaming fees for calls made by cellular subscribers outside their local service areas; and

(b) charges for IP telephone calls, data and Internet services and fixed line long distance calls.

(ii) Monthly fees represent fixed amounts charged to cellular, data, Internet, and paging subscribers on a monthly basis for maintaining their access to the related services.

(iii) Connection fees are charged to cellular and paging subscribers for the one-time activation service rendered to connect the cellular subscribers to the Group's cellular network or to reconfigure the receiving frequency of the subscribers' pagers to the Group's paging network. Connection fees have been cancelled since 1 July 2001.

(iv) Interconnection revenue represents amounts received from other operators, including Unicom Group, for calls from their networks to the Group's networks. It also includes roaming-in fees received from other operators, including Unicom Group, for calls made by their subscribers using the Group's cellular networks. (see Note 32(a))

(v) Leased line rental income represents rentals received for leasing of transmission lines to Unicom Group, business customers and other carriers in the PRC.

(vi) Other revenue mainly represents revenue from the provision of value-added services to subscribers such as short message services.

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and crediting the following:

	Note	2002 RMB'000	2001 RMB'000
After charging/(crediting):			
Share of (profit) losses from associated companies	8	(553)	24,773
Dividends from investment securities	8	(24,978)	(22,864)
Realised gains on investment securities	8	(18,098)	(944)
Realised gains on trading securities	8	(1,876)	(31,979)
Unrealised losses on trading securities	8	27,461	56,576
Gains on disposal of interests in associated company	8	(1,251)	—
Interest income		(470,282)	(2,096,972)
Interest expense	7	1,879,663	2,593,402
Less: amounts capitalised in construction-in-progress	7	(422,927)	(686,254)
Total interest expenses	7	1,456,736	1,907,148
Depreciation:			
- Assets held under finance leases	19	20,046	9,327
- Other assets		10,830,635	7,715,229
Total depreciation	19	10,850,681	7,724,556
Amortisation of goodwill	20	23,414	74,261
Deferred customer acquisition costs of contractual CDMA subscribers		1,385,424	—
Other amortisation	21	381,629	463,479
Total amortisation		1,790,467	463,479
Loss on disposal of property, plant and equipment	6(iv)	82,467	54,475
Operating lease expense:			
- Leased lines		691,358	853,306
- CDMA network capacities		891,897	—
- Other leasing expense	6(iv)	610,931	569,954
Total operating lease expense		2,194,186	1,423,260
Auditors' remuneration		38,916	52,972

5. PROFIT BEFORE TAXATION (continued)

	Note	2002 RMB'000	2001 RMB'000
Provision (write-back) for doubtful debts:			
- GSM Business		802,914	517,663
- CDMA Business		42,050	—
- Data and Internet Business		70,922	24,743
- Long Distance Business		46,124	13,058
- Paging Business		9,979	(14,510)
Total provision for doubtful debts	*6(iv)*	971,989	540,954
Cost of inventories		2,161,512	1,268,645
Write-down of inventories to net realisable value		7,156	16,605
Personnel:			
- Salaries and wages		2,654,845	2,156,911
- Contributions to defined contribution pension schemes	*11*	203,164	163,500
- Contributions to supplementary defined contribution pension schemes	*11*	11,066	—
- Special monetary housing benefits	*12*	277,944	88,911
- Contributions to other housing fund	*12*	92,549	69,963
- Other housing benefits	*12*	95,650	7,933
Total personnel	*6(iii)*	3,335,218	2,487,218
Provision for impairment for:			
- Property, plant and equipment		—	468,611
- Goodwill	*6(iv)*	38,797	163,900
Total provision for impairment		38,797	632,511
Additional provision (write-back) for impairment losses of investments in:			
- Associated companies		—	(3,219)
- Investment securities		650	(12,490)
Total provision for impairment in investments		650	(15,709)
Net exchange losses (income)	*8*	21,533	(14,476)

6. OPERATING EXPENSES

The nature of the major components of operating expenses is as follows:

(i) Leased line charges and network capacities are incurred in association with leasing of transmission capacity from other operators and CDMA network capacities from Unicom New Horizon (see Note 31(a)).

(ii) Interconnection charges represent amounts paid to other operators, including Unicom Group, for calls from the Group's networks to the networks of other operators.

(iii) Personnel costs comprise staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes and housing benefits.

(iv) General, administrative and other expenses are analysed as follows:

	2002 RMB'000	2001 RMB'000
Operating lease rental expenses	610,931	569,954
Repair and maintenance expenses	832,259	424,614
Provision for doubtful debts	971,989	540,954
Loss on disposal of property, plant and equipment	82,467	54,475
Provisions for impairment loss of property, plant and equipment and goodwill	38,797	632,511
Traveling, entertainment and meeting expenses	850,876	612,592
Power and water charges	729,650	473,774
Office expenses	582,187	587,727
Other	932,694	1,602,396
	5,631,850	5,498,997

7. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans repayable over 5 years	41,115	—
Interest on bank loans repayable within 5 years	1,838,548	2,593,402
Less: Amounts capitalised in construction-in-progress	(422,927)	(686,254)
Total interest expenses	1,456,736	1,907,148
Bank charges	17,705	10,418
	1,474,441	1,917,566

8. OTHER EXPENSE (INCOME), NET

	2002 RMB'000	2001 RMB'000
Realised gains on trading securities	(1,876)	(31,979)
Unrealised losses on trading securities	27,461	56,576
Share of (profits) losses from associated companies	(553)	24,773
Dividends from investment securities	(24,978)	(22,864)
Realised gains on investment securities	(18,098)	(944)
Losses (gains) from exchange difference	21,533	(14,476)
Other	12,870	(30,917)
	16,359	(19,831)

9. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of fees and emoluments payable to directors of the Company during the year are set out below:

	2002 RMB'000	2001 RMB'000
Non-executive directors:		
Fees	849	1,273
Executive directors:		
Fees	—	—
Other emoluments		
- Salaries, allowance and other allowances	9,722	9,083
- Pension benefits/pension scheme contributions	38	124
- Bonuses paid and payable	5,887	11,162
	15,647	20,369
	16,496	21,642

Directors' emoluments disclosed above include approximately RMB636,000 (2001: approximately RMB637,000) paid to independent non-executive directors.

During the year, 2,802,000 (2001: Nil) share options were granted to the directors of the Company under the amended Share Option Scheme approved by the independent non-executive directors on 10 July 2002. Refer to Note 30 of the financial statements for details of share option granted during the year.

9. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors analysed by the number of directors and emolument ranges were as follows:

(All amounts expressed in Hong Kong dollars)	Number of directors 2002	2001
$nil - $1,000,000	4	4
$1,000,001 - $1,500,000	2	—
$2,000,001 - $2,500,000	1	—
$2,500,001 - $3,000,000	1	2
$3,000,001 - $3,500,000	1	—
$3,500,001 - $4,000,000	1	1
$4,000,001 - $4,500,000	—	1
$5,000,001 - $5,500,000	—	1
	10	9

No directors waived the right to receive emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for 2002 include four directors (2001: All) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during year 2002 are as follows:

	2002 RMB'000
Salaries, allowance and other allowances	1,432
Bonuses paid and payable	849
	2,281

The emoluments of the remaining individual during year 2002 fell within the band of HK$2,000,001 - HK$2,500,000.

No emolument was paid to the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

10. TAXATION

Provision for taxation represents:

	2002 RMB'000	2001 RMB'000
Provision for PRC enterprise income tax on the estimated taxable profits for the year	1,192,801	1,608,825
Deferred taxation	559,545	(567,688)
	1,752,346	1,041,137

There is no Hong Kong profits tax liability as the Group does not have any assessable income sourced from Hong Kong for the years ended 31 December 2002 and 2001.

The income tax liability of CUCL was assessed as follows:

(a) CUCL was approved as a foreign investment enterprise ("FIE") established in the PRC and the tax liabilities for 2002 and 2001 were assessed in accordance with FIE taxation requirements.

(b) CUCL was assessed for income tax liability on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing approved by the tax authority.

(c) Starting from 1 January 2001, Guoxin and its subsidiaries (except for Unicom Guomai) were subject to the FIE taxation requirement as stated in note (a) above and assessed for income tax liability on a consolidated basis with CUCL as a single entity.

10. TAXATION (continued)

The reconciliation of PRC enterprise income tax between the statutory tax rate of 33% applied to income before taxation and the effective tax rate actually recorded in the income statement is as follows:

	2002	2001
PRC		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses:		
- Housing benefits	—	2.2
- Personnel expenses	0.1	0.7
- Other	1.4	1.2
Effect of preferential tax rates	(3.2)	(2.7)
Investment tax credits (Note (a))	(2.8)	—
Non-recognition of deferred taxes:		
- Provision for doubtful debts of Cellular Business	5.3	4.6
- Provision for doubtful debts of Cellular Business made in prior years and approved by tax authority to be deductible for tax purpose	(4.7)	—
Additional depreciation deductible for tax purpose (Note (b))	—	(9.8)
Effective PRC income tax rate	29.1%	29.2%
Hong Kong		
Statutory tax rate of 16%	16.0%	16.0%
Non-taxable income:		
- Interest income	(16.0)	(16.0)
Effective HK income tax rate	—	—
Total overall effective income tax rate	27.8%	19.1%

Tax effect of preferential tax rates is as follows:

	2002	2001
Aggregate amount (RMB in millions)	191.3	83.6
Per share effect (RMB)	0.015	0.007

Notes:

(a) For 2002, investment tax credits represented the tax credits relating to the additions of certain domestic equipment that were deductible against current tax.

(b) During 2001, CUCL obtained the approval from the relevant tax authorities in the PRC that certain depreciation expenses prior to 2000, which had previously been disallowed for deduction against current tax, could be used to deduct against enterprise income tax over 5 years. Accordingly, the deferred tax asset relating to this “additional depreciation deductible for tax purpose” was recognised in 2001 upon the receipt of the tax approval. Such deferred tax will be reversed on a straight-line basis for the period from 2000 to 2004.

10. TAXATION (continued)

The movement of the deferred tax assets is as follows:

	The Group 2002 RMB'000	2001 RMB'000
Balance, beginning of year	1,581,408	1,013,720
Acquisition of Unicom New Century	307,623	—
Deferred taxation charged to income statement	(559,545)	567,688
Balance, end of year	1,329,486	1,581,408

Deferred taxation as of year-end represents the taxation effect of the following timing differences:

	The Group 2002 RMB'000	2001 RMB'000
Deferred tax assets:		
Interest on loans from CCF joint ventures	287,998	317,447
Loss arising from terminations of CCF Arrangements	309,813	348,082
Income tax on advances from customers for telephone cards	471,657	529,049
Difference in goodwill amortisation period	12,878	23,590
Provision for impairment loss for property, plant and equipment	112,994	154,642
Provision for impairment loss for goodwill	27,620	54,087
Provision for doubtful debts of Paging Business	38,673	53,223
Write-off of other assets to income statement	17,662	24,368
Write-down of inventories to net realisable value	31,260	35,819
Amortisation of retirement benefits	37,379	39,852
Additional depreciation deductible for tax purpose	171,091	232,291
Differences on tax basis for the residual value of property, plant and equipment	19,634	—
Other	68,152	20,590
	1,606,811	1,833,040
Deferred tax liabilities:		
Accelerated depreciation for tax purpose	(76,468)	(129,526)
Capitalised interest already deducted for tax purpose	(200,857)	(122,106)
	(277,325)	(251,632)
Net deferred tax assets	1,329,486	1,581,408
Less: Current portion of deferred tax assets	(502,918)	(569,192)
	826,568	1,012,216

10. TAXATION (continued)

The above deferred tax assets included the effects of interests on loans from CCF joint ventures and loss arising from termination of CCF arrangements. Prior to 2000, in the process of developing its cellular networks, the GSM Business has entered into cooperation agreements with certain contractual joint ventures (the "CJVs") established in the PRC. Each CJV was established by one or more Chinese enterprises and one or more foreign parties, and the aforementioned cooperation arrangements are referred to as the China-China-Foreign Arrangements (the "CCF Arrangements"). Pursuant to the CCF Arrangements, the CJVs have extended funding to the GSM Business for the construction of telecommunications systems and network equipment in the PRC. Based on the terms of the cooperation agreements, the CCF Arrangements had been accounted for as secured financing arrangements to the GSM Business, and interests had been accrued by the GSM Business based on the funds provided by the CJVs and the then prevailing market borrowing rates. Afterwards, all CCF Arrangements had been terminated in 1999 and 2000, the related loss on the termination of CCF Arrangements was charged to the income statement as incurred. Pursuant to the approval of relevant tax authorities, since all the interest costs and the loss on termination of these CCF Arrangements can be deducted against current tax over 7 years, the resulting deferred tax assets were recognised. Such deferred tax assets will reverse on a straight-line basis up to 2006.

Deferred tax assets not recognised consist of the following:

	The Group	
	2002 RMB'000	2001 RMB'000
Tax effect of provision for doubtful debts of Cellular Business	485,748	373,159
Tax effect of operating loss of a subsidiary	107,299	107,299

The above deferred tax assets have not been recognised as it is uncertain that they will crystallise in the foreseeable future.

11. RETIREMENT BENEFITS

All the full time employees of the Group are covered by a state-sponsored pension scheme under which the employees are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make defined contributions to the state-sponsored pension scheme at the rate of 19% for 2002 (2001: 19%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions.

In addition, effective from 11 August 1998, a supplementary defined contribution pension plan managed by an independent insurance company was established. Under this plan, the Group makes a monthly defined contribution of 2% to 6% of the monthly salary of each employee. There were no vested benefits attributable to past services upon adoption of the plan.

Retirement benefits charged to the income statement were as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Contributions to defined contribution pension schemes	203,164	163,500
Contributions to supplementary defined contribution pension schemes	11,066	—

12. HOUSING BENEFITS

Under housing reform schemes in accordance with government regulations at the provincial level, the Group provided benefits to certain qualified employees to enable them to purchase living quarters at a discount. In the case of Guoxin, the living quarters were provided by China Telecom prior to the establishment of Guoxin and the related benefits were not charged to the Group. In the case of the GSM Business, certain of these living quarters were provided by Unicom Group and the related benefits were not charged to the Group. Housing benefits which were not charged to the Group amounted to approximately RMB18.5 million for 2002 (2001: RMB18.5 million).

Subsequent to the establishment of Guoxin, for living quarters purchased or built by the Group, the liability to provide the housing benefits was recognised by the Group upon finalisation of the allocation of the housing units to specific employees. The amount of the benefits was the difference between the cost of the quarters purchased by the employees and the amount actually charged to the employees. The benefits are recorded as expenses over the estimated remaining average service life of the participating employees.

In addition, all of the full time employees of the Group are entitled to participate in a state-sponsored housing fund. The fund can be used for the construction of living quarters or may be withdrawn upon the retirement of the employees. The Group is required to make annual contributions to the housing fund at a rate on 10% (2001: from 5% to 10%) of the employees' basic salaries.

12. HOUSING BENEFITS (continued)

According to the central government policy on housing reform based on a State Council circular issued in 1998, monetary housing subsidies in the form of special cash payments are to be made by certain PRC enterprises to their employees in order to enable them to purchase living quarters. Under this general policy, enterprises are allowed to establish their own housing reform schemes taking into consideration the actual financial capability of the enterprises.

The Group finalised its monetary housing benefit scheme as a special employee incentive scheme for all qualified employees in year 2001. According to the scheme, the total amount of monetary housing benefit for each employee is determined based on the working age of the employee and the property market price prevailing in the relevant location. The total monetary housing benefit is divided into three annual payments in the proportion of 40%, 30% and 30% respectively. In order to be included in the incentive scheme, employees are required to sign a service contract with a minimum service period of three years. The employees will be entitled to the first 40% payment only when the following criteria are met:

(i) the provincial branch in which the employees are working has achieved the annual performance budget set by head office management; and

(ii) the employees continue to be under the employment of the Group at the time of the payment.

Similarly, the employees will only be entitled to the second and then the third annual payments when and only when the above two conditions are also fulfilled in subsequent years.

The Group accrues for each annual payment upon the fulfillment of the above criteria by the employees, at which time the liability is considered to have arisen.

For the years ended 31 December 2002 and 2001, certain provinces achieved the annual performance budget and were thus approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the years ended 31 December 2002 and 2001 amounted to approximately RMB277,944,000 and RMB88,911,000 respectively, based on the aforementioned distribution plan. The remaining provinces were not entitled to the special monetary housing benefits in 2002 since they did not achieve their annual performance budget in 2002 and accordingly, no provision for such benefits was made.

The expenses incurred by the Group in relation to the housing benefits described above were as follows (excluding those paid by Unicom Group and China Telecom and not charged to the Group):

	The Group	
	2002 RMB'000	2001 RMB'000
Special monetary housing benefits	277,944	88,911
Contributions to housing fund	92,549	69,963
Other housing benefits	95,650	7,933
	466,143	166,807

13. PROFITS ATTRIBUTABLE TO SHAREHOLDERS

CUCL was established as a foreign investment enterprise in the PRC. In accordance with the Article of Association of CUCL, CUCL is required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after taxation and minority interests but before dividend distribution.

CUCL is required to allocate at least 10% of its profit after tax and minority interests determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

Appropriation to the staff bonus and welfare fund is at the discretion of the directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and are not distributable as cash dividends. Under HK GAAP, the appropriations to the staff bonus and welfare fund will be charged to income statement as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2002, no appropriation to staff bonus and welfare fund has been made (2001: Nil).

As such, CUCL appropriated approximately RMB433,249,000 to the statutory reserve for the year ended 31 December 2002 (2001: RMB224,628,000).

For the year ended 31 December 2002, profit attributable to shareholders included a profit of approximately RMB287,492,000 (2001: RMB1,981,843,000) which has been dealt with in the financial statements of the Company. As of 31 December 2002, the amount of distributable reserves to shareholders of the Company amounted to approximately RMB3,854,183,000 (2001: RMB3,566,691,000).

At a meeting held on 1 April 2003, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.10 per ordinary share to the shareholders for the year ended 31 December 2002 totalling RMB1,255,299,607. This proposed dividend is not reflected as a dividend payable in the financial statements as of 31 December 2002, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

14. EARNINGS PER SHARE

Earnings per share and per American Depository Share ("ADS")

Basic earnings per share for the years ended 31 December 2002 and 2001 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years.

Diluted earnings per share for the years ended 31 December 2002 and 2001 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years, after adjusting for the effects of the dilutive potential ordinary share. All potential dilutive shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme (see Note 30).

There was no dilution of net earnings per share for both years. In 2002, anti-dilutive shares arising from the share options of approximately 48,745,000 shares (2001: 30,451,000 shares) were not included in the calculation of diluted earnings per share.

Basic and diluted earnings per ADS have been computed by multiplying the earnings per share by 10, which is the number of shares represented by each ADS.

Reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	2002			2001		
	Profit attributable to shareholders RMB'000	Shares '000	Per share amount RMB	Profit attributable to shareholders RMB'000	Shares '000	Per share amount RMB
Basic earnings	4,566,072	12,552,996	0.364	4,456,761	12,552,996	0.355
Effect of conversion of share options	—	—	—	—	—	—
Diluted earnings	4,566,072	12,552,996	0.364	4,456,761	12,552,996	0.355

15. TRADING SECURITIES

Trading securities represented listed equity securities in the PRC, which are carried at fair value. The realised gains on trading securities for the year ended 31 December 2002 amounted to approximately RMB1,876,000 (2001: RMB31,979,000) and the unrealised losses amounted to RMB27,461,000 (2001: RMB56,576,000). There have been no significant changes in the fair values of the listed securities after the balance sheet date.

16. ACCOUNTS RECEIVABLE, NET

	The Group 2002 RMB'000	2001 RMB'000
Accounts receivable for GSM services	3,920,821	2,787,993
Accounts receivable for CDMA services	1,004,754	—
Accounts receivable for Data and Internet services	410,479	173,124
Accounts receivable for Long Distance services	543,838	412,711
Accounts receivable for Paging services	181,348	130,172
Sub-total	6,061,240	3,504,000
Less: Provision for doubtful debts for GSM services	(1,466,803)	(931,687)
Provision for doubtful debts for CDMA services	(62,821)	—
Provision for doubtful debts for Data and Internet services	(99,214)	(26,056)
Provision for doubtful debts for Long Distance services	(60,176)	(16,063)
Provision for doubtful debts for Paging Business	(44,958)	(32,131)
	4,327,268	2,498,063

The aging analysis of accounts receivable was as follows:

	The Group 2002 RMB'000	2001 RMB'000
Less than three months	4,130,226	2,362,274
Three months to six months	464,750	577,211
Six months to one year	769,718	314,028
More than one year	696,546	250,487
	6,061,240	3,504,000

The normal credit period granted by the Group is on average 30 days from the date of invoice.

Provision for doubtful debts was analysed as follows:

	The Group 2002 RMB'000	2001 RMB'000
Balance, beginning of year	1,005,937	671,894
Provision for the year	971,989	540,954
Acquisition of Unicom New Century	327,936	—
Written-off for the year	(571,890)	(206,911)
Balance, end of year	1,733,972	1,005,937

17. INVENTORIES

	The Group 2002 RMB'000	2001 RMB'000
Handsets	2,357,577	11,029
Telephone cards	672,728	548,524
Pagers	77,134	116,847
Other	122,464	75,591
	3,229,903	751,991

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	The Group 2002 RMB'000	2001 RMB'000	The Company 2002 RMB'000	2001 RMB'000
Deposits and prepayments		1,069,939	620,419	4,781	3,168
Interest receivable		37,780	167,004	37,780	167,004
Advances to employees		106,749	58,069	—	—
Deferred customer acquisition costs of contractual CDMA subscribers	*31(b)*	508,596	—	—	—
Other		850,700	124,069	—	—
		2,573,764	969,561	42,561	170,172

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

	The Group 2002 RMB'000	2001 RMB'000	The Company 2002 RMB'000	2001 RMB'000
Within one year	2,227,594	906,225	42,561	170,172
Over one year	346,170	63,336	—	—
	2,573,764	969,561	42,561	170,172

19. PROPERTY, PLANT AND EQUIPMENT, NET

	The Group 2002						2001
	Land use rights and buildings RMB'000	Telecommuni-cations equipment RMB'000	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000	Total RMB'000
Cost or valuation:							
Beginning of year	6,204,733	69,492,330	2,628,187	638,224	17,110,796	96,074,270	65,130,214
Additions	204,283	98,939	540,433	146,414	18,375,052	19,365,121	31,264,132
Acquisition of Unicom New Century	1,351,887	17,362,600	565,441	130,777	3,920,070	23,330,775	—
Transfer from CIP	2,603,614	16,361,659	978,173	38,116	(19,981,562)	—	—
Disposals	(9,505)	(390,890)	(41,085)	(5,970)	(5,007)	(452,457)	(320,076)
End of year	10,355,012	102,924,638	4,671,149	947,561	19,419,349	138,317,709	96,074,270
Representing:							
At cost	7,651,932	102,924,638	4,671,149	947,561	19,419,349	135,614,629	93,371,190
At valuation	2,703,080	—	—	—	—	2,703,080	2,703,080
	10,355,012	102,924,638	4,671,149	947,561	19,419,349	138,317,709	96,074,270
Accumulated depreciation and impairment:							
Beginning of year	609,087	18,476,999	962,581	257,823	19,345	20,325,835	12,266,577
Charge for the year	459,923	9,489,172	736,564	165,022	—	10,850,681	7,724,556
Impairment losses	—	—	—	—	—	—	468,611
Disposals	(2,005)	(300,607)	(32,056)	(5,970)	(4,798)	(345,436)	(133,909)
End of year	1,067,005	27,665,564	1,667,089	416,875	14,547	30,831,080	20,325,835
Net book value:							
End of year	9,288,007	75,259,074	3,004,060	530,686	19,404,802	107,486,629	75,748,435
Beginning of year	5,595,646	51,015,331	1,665,606	380,401	17,091,451	75,748,435	52,863,637

19. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

	The Company			
	2002			2001
	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
Cost:				
Beginning of year	7,195	5,652	12,847	10,655
Additions	1,259	1,167	2,426	2,192
End of year	8,454	6,819	15,273	12,847
Accumulated depreciation:				
Beginning of year	1,683	2,316	3,999	364
Charge for the year	1,717	3,110	4,827	3,635
End of year	3,400	5,426	8,826	3,999
Net book value:				
End of year	5,054	1,393	6,447	8,848
Beginning of year	5,512	3,336	8,848	10,291

There was no property, plant and equipment pledged to banks as loan security as of 31 December 2002 (2001: RMB6,742 million).

As of 31 December 2002, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB4,164 million (2001: RMB2,272 million) have been included in construction-in-progress.

For the year ended 31 December 2002, interest of approximately RMB423 million (2001: RMB686 million) was capitalised to construction-in-progress.

As of 31 December 2002, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB348 million and RMB77 million respectively (2001: RMB315 million and RMB60 million).

Land use rights and buildings of the Group as of 31 March 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB8.8 million for the year ended 31 December 2002 (2001: RMB8.8 million). The revaluation deficit was charged to the income statement during the year ended 31 December 2000.

19. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

As of 31 December 2002, the carrying amount of land use rights and buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation was approximately RMB2,032 million (2001: RMB2,139 million).

As of 31 December 2002, net book value of telecommunications equipment held under finance leases amounted to approximately RMB159 million (2001: RMB179 million).

In 2001, the economic performance of Paging Business was worse than originally expected. Updated analyses and forecasts were prepared by the Group to determine if there had been an impairment of assets. The test for impairment was conducted for the paging telecommunications business of each province, representing a cash-generating unit, after considering the significant decline in revenue and profitability in 2001. The impaired assets, including telecommunications equipment and the related goodwill of certain provinces were written down to their recoverable values determined based on their value in use. Value in use is determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the paging assets. In estimating the future net cash flows, the Group has made key assumptions and estimates on the appropriate discount rate adopted (8% per annum) and the period covered by the cash flow forecast, the gradual slow-down in the future loss of customers, the expected stability in average revenue per subscriber, the effects of incremental cash flows arising from new paging businesses and the adoption of cost reduction plans.

These assumptions and estimations are made after considering the historical trends, the prevailing market trends and the physical conditions of the related assets. Based on the above, the Group recorded impairment losses for property, plant and equipment amounting to approximately RMB469 million and for goodwill amounting to approximately RMB164 million for the year ended 31 December 2001.

In 2002, the Group conducted a re-assessment of the recoverability of the carrying amount of the paging assets based on the Group's best estimates of the discounted net future cash flows expected to be generated from the Paging Business over a period of five more years. Management expected that the continued increase in cash inflows arising from new value-added paging services would substantially offset the expected further reduction of cash inflows to be generated from the traditional paging services. Other assumptions are basically consistent with those adopted in the previous assessment performed in the prior year. Based on this latest estimate of the discounted net cash flows expected to arise from the continuing use of the paging assets, the Group concluded that the carrying amount of the paging assets as of 31 December 2002 did not exceed its recoverable amount and accordingly no additional impairment loss was recognised in 2002.

In 2002, the Group also recognised losses on disposal of property, plant and equipment of approximately RMB82 million (2001: RMB54 million).

20. GOODWILL

	The Group 2002 RMB'000	2001 RMB'000
Cost	525,431	505,485
Goodwill arising from the Acquisition of the Unicom New Century	2,365,197	—
	2,890,628	505,485
Less: Accumulated amortisation	(321,712)	(298,298)
Impairment losses	(202,697)	(163,900)
	2,366,219	43,287

In 2002, goodwill arising from the Acquisition represented the excess of the costs of investments of RMB4,909 million over the fair value of the Company's share of separable net assets acquired amounting to RMB2,544 million as of 31 December 2002 (the effective date of the Acquisition). Such goodwill is amoritsed over 20 years on a straight-line method based on the estimated economic beneficial periods.

Prior to 2002, goodwill represented the excess of purchase consideration over the fair values of the separately identifiable assets acquired by Guoxin for (i) certain local Paging Businesses during its restructuring in 1998 and (ii) minority interests in the provincial subsidiaries of Guoxin. The amortisation charge of goodwill for the year ended 31 December 2002 amounted to approximately RMB23,414,000 (2001: RMB74,261,000).

The impairment provision in 2002 amounted to approximately RMB38,797,000 (2001: RMB163,900,000) representing the write-down of goodwill relating to the Paging Businesses in certain provinces to their recoverable amounts.

21. OTHER ASSETS

	Note	The Group 2002 RMB'000	2001 RMB'000
Interconnection facilities		568,099	464,575
Prepaid rental and leased line		1,405,431	957,361
Other		869,558	343,531
		2,843,088	1,765,467
Less: Accumulated amortisation		(1,299,029)	(750,029)
		1,544,059	1,015,438
Deferred customer acquisition costs of certain contractual CDMA subscribers	*31(b)*	5,474,164	—
		7,018,223	1,015,438

Amortisation of other assets for the year ended 31 December 2002 amounted to approximately RMB381,629,000 (2001: RMB463,479,000).

22. INVESTMENT SECURITIES

	The Group 2002 RMB'000	2001 RMB'000
Unlisted equity securities in the PRC, at cost	111,863	131,212
Less: Provision for impairment in losses	(6,215)	(7,712)
	105,648	123,500

23. INVESTMENT IN SUBSIDIARIES

	The Company 2002 RMB'000	2001 RMB'000
Unlisted equity investments, at cost	45,564,109	23,190,368

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 23 December 2002, the Company acquired the entire issued share capital of UNC (BVI), whereas the only asset of UNC (BVI) is its interests in the entire equity of Unicom New Century. The acquisition became effective on 31 December 2002.

In 2002, the Company has contributed cash of RMB17,464,520,000 to CUCL as additional investment.

23. INVESTMENT IN SUBSIDIARIES (continued)

The Company has direct or indirect interests in the following principal subsidiaries. All of these subsidiaries are privately-held limited companies except Unicom Guomai whose shares are listed on the Shanghai Stock Exchange.

As of 31 December 2002, the details of the Company's subsidiaries were as follows:

Name	Place and date of incorporation and kind of legal entity	Percentage of equity interest held		Issued and fully paid capital	Principal activities
		Direct	Indirect	RMB'000	
China Unicom Corporation Limited	The PRC, 21 April 2000, limited liability company	100.00%	—	6,502,490	Telecommunications operation
Unicom New Century (BVI) Limited	British Virgin Islands, 23 October 2002, limited liability company	100.00%	—	12	Investment holding
Guoxin Paging Corporation Ltd.	The PRC, 17 September 1998, limited liability company	—	100.00%	6,825,088	Investment holding
Unicom New Century Telecommunications Co., Ltd.	The PRC, 16 July 2002, limited liability company	—	100.00%	328,936	Telecommunications operation
Liaoning Guoxin Telecommunications Co., Ltd. ("Liaoning Guoxin")	The PRC, 11 November 1998, limited liability company	—	100.00%	372,000	Paging operation
Sichuan Guoxin Telecommunications Co., Ltd. ("Sichuan Guoxin")	The PRC, 30 September 1998, limited liability company	—	100.00%	386,628	Paging operation
Unicom Guomai Communications Co., Ltd. ("Unicom Guomai")	The PRC, 24 November 1992, limited liability company	—	58.88%	364,883	Paging operation

Amounts due to a subsidiary included in the current liabilities of the Company are unsecured, non-interest bearing and repayable on demand.

24. INVESTMENT IN ASSOCIATED COMPANIES

	The Group 2002 RMB'000	2001 RMB'000
Cost	37,036	51,145
Share of net assets	(11,998)	(23,940)
	25,038	27,205
Less: Provision for impairment in losses	(21,224)	(23,059)
	3,814	4,146

Full provision for impairment loss in respect of investment in certain associated companies was made in 2001 when the Group judged that the recoverable amount of these investments would be minimal based on the estimated discounted future net cash flows of the investment. In view of the persistent poor operating results of these associated companies, management concluded that the impairments were not temporary.

As of 31 December 2002, details of investment in associated companies were as follows:

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Beijing Zhongjie Mobile Telecommunications Co., Ltd.	The PRC, 5 April 1999	—	33.00%	10,000	Telecommunications technology
Shanghai Tianhua Guomai Information Co., Ltd.	The PRC, 16 October 1997	—	40.00%	5,000	Telecommunications technology
Shanghai Beiyan Labor Service Co., Ltd.	The PRC, 12 January 1999	—	48.00%	500	Telecommunications technology
Suzhou Huihong Precision Metal Co., Ltd.	The PRC, 30 August 2000	—	22.50%	13,245	Telecommunications technology
Chengdu Tongfa Champion Communications Co., Ltd.	The PRC, 23 April 1993	—	37.50%	41,590	Telecommunications technology
Sichuan Sutong Expressway Communications Co., Ltd.	The PRC, 8 July 1997	—	30.00%	36,667	Telecommunications technology

25. PAYABLES AND ACCRUED LIABILITIES

	Note	The Group 2002 RMB'000	The Group 2001 RMB'000	The Company 2002 RMB'000	The Company 2001 RMB'000
Payables to contractors and equipment suppliers		13,703,912	13,141,029	—	—
Accrued expenses		1,139,645	717,827	714	31,089
Payables to telecommunications products suppliers		2,395,928	124,928	—	—
Customer deposits		784,156	248,716	—	—
Salary and welfare payables		775,668	528,960	10,068	—
Other	*(i)*	1,012,652	567,976	81,099	—
		19,811,961	15,329,436	91,881	31,089

Note:

(i) Other includes miscellaneous accruals for housing fund and other government surcharges.

As of 31 December 2002, there are no payables to contractors and equipment suppliers of the Group denominated in US dollars (2001: approximately RMB67 million, about US$8 million).

The aging analysis of payables and accrued liabilities was as follows:

	The Group 2002 RMB'000	The Group 2001 RMB'000	The Company 2002 RMB'000	The Company 2001 RMB'000
Less than six months	14,887,342	10,013,637	91,881	31,089
Six months to one year	2,521,886	3,903,316	—	—
More than one year	2,402,733	1,412,483	—	—
	19,811,961	15,329,436	91,881	31,089

26. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.54% to 5.56% per annum for 2002 (2001: 4.19% to 7.72% per annum).

Supplemental information with respect to short-term bank loans was:

	The Group				
	Balance at year end RMB'000	Weighted average interest rate at year end per annum	Maximum amount outstanding during the year RMB'000	Average amount outstanding during the year* RMB'000	Weighted average interest rate during the year** per annum
31 December 2002					
- secured	209,000				
- unsecured	8,937,500				
	9,146,500	5.06%	9,146,500	8,117,750	5.39%
31 December 2001					
- secured	—				
- unsecured	7,089,000				
	7,089,000	5.80%	10,816,951	7,411,409	5.80%

* The average amount outstanding is computed by dividing the total of outstanding principal balance as of 1 January and 31 December, as applicable, by 2.

** The weighted average interest rate is computed by dividing the total of weighted average interest rates as of 1 January and 31 December, as applicable, by 2.

As of 31 December 2002, short-term bank loans of approximately RMB463 million (2001: RMB200 million) were guaranteed by Unicom Group.

As of 31 December 2002, short-term bank loans of approximately RMB209 million (2001: Nil) were secured by the future service fee revenue to be generated by the cellular operations.

27. LONG-TERM BANK LOANS

	Interest rate and final maturity	The Group 2002 RMB'000	2001 RMB'000
Renminbi denominated bank loans	Fixed interest rate ranging from 4.54% to 6.24% (2001: 5.46% to 7.65%) per annum with maturity through 2008 (2001: maturity through 2007)		
- secured		24,627,646	17,247,009
- unsecured		18,518,021	19,933,362
		43,145,667	37,180,371
Less: Current portion		(5,459,505)	(843,603)
		37,686,162	36,336,768

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

	The Group 2002 RMB'000	2001 RMB'000
Balances due:		
- not later than one year	5,459,505	843,603
- later than one year and not later than two years	4,825,581	9,339,561
- later than two years and not later than five years	32,581,222	25,213,737
Thereafter	279,359	1,783,470
	43,145,667	37,180,371
Less: Portion classified as current liabilities	(5,459,505)	(843,603)
	37,686,162	36,336,768

As of 31 December 2002, long-term bank loans were secured by the following:

(i) approximately RMB24,308 million (2001: RMB17,247 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches and RMB3,471 million (2001: RMB850 million) of which was also guaranteed by Unicom Group; and

(ii) in addition to the above, approximately RMB9,164 million (2001: RMB3,403 million) of long-term bank loans were guaranteed by Unicom Group.

28. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

	The Group 2002 RMB'000	The Group 2001 RMB'000
Total minimum lease payments under finance leases repayable:		
- not later than one year	17,284	8,642
- later than one year and not later than five years	34,659	34,569
- later than five years	154,395	163,127
	206,338	206,338
Less: Future finance charges	(88,243)	(97,430)
Present value of minimum obligations	118,095	108,908
Representing obligations under finance leases:		
- current liabilities	16,793	8,151
- non-current liabilities	101,302	100,757

	The Group 2002 RMB'000	The Group 2001 RMB'000
The present value of obligations under finance leases:		
- not later than one year	16,793	8,151
- later than one year and not later than five years	28,224	28,224
- later than five years	73,078	72,533
	118,095	108,908
Less: Amount due within one year included in current liabilities	(16,793)	(8,151)
	101,302	100,757

Interest rate of obligations under finance leases is at 6% per annum.

29. SHARE CAPITAL

	2002 HK$'000	2001 HK$'000
Authorised:		
30,000,000,000 ordinary shares of HK$ 0.1 each	3,000,000	3,000,000

	As of 31 December 2002			As of 31 December 2001		
	Number of shares ('000)	HK$'000	RMB equivalent RMB'000	Number of shares ('000)	HK$'000	RMB equivalent RMB'000
Issued and fully paid:						
Unicom BVI	9,725,000	972,500	1,030,850	9,725,000	972,500	1,030,850
Public investors	2,827,996	282,799	300,521	2,827,996	282,799	300,521
	12,552,996	1,255,299	1,331,371	12,552,996	1,255,299	1,331,371

30. SHARE OPTION SCHEME

On 1 June 2000, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares (including those that could be subscribed for under the pre-global offering share option scheme as described below) equal to 10% of the total issued share capital of the Company. According to the Share Option Scheme, the nominal consideration payable by a participant for the grant of options will be HK$1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80% of the average of the closing prices of shares on the HKSE on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the HKSE.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years from 22 June 2000. According to a resolution of the Board of Directors in June 2001, the Company has granted 6,724,000 share options under the Share Option Scheme which represent, on their full exercise, 6,724,000 shares to certain employees of the Group in the following terms:

(i) the price of a share payable by a participant upon the exercise of an option shall be HK$15.42 (excluding the brokerage fee and HKSE transaction levy); and

(ii) the period during which an option may be exercised commences from the date of grant of the options and will end by 22 June 2010.

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the New Chapter 17 of the Listing Rules which came into effect on 1 September 2001 with the following major amendments:

(i) share option may be granted to employees including executive directors of the Group or any of the non-executive directors;

(ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and

(iii) minimum subscription price shall not be less than the higher of:

   (a) the nominal value of the shares;

   (b) the closing price of the shares of the Stock Exchange as stated in the Stock Exchange's quotation sheets on the offer date in respect of the options; and

   (c) the average closing price of the shares on the Stock Exchange 's quotation sheets for the five trading days immediately proceeding the offer date.

30. SHARE OPTION SCHEME (continued)

According to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 10 July 2002, a total of 36,028,000 share options were granted to eligible individuals including directors, independent non-executive directors, and the non-executive directors of the Company under the amended Share Option Scheme in the following terms:

(i) aggregate of 2,802,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price is HK$6.18; and

(iii) the period during which an option may be exercised commences from the date of offer but no later than 6 years from the date of the offer date with following portions:

Periods	Portions
10 July 2003 to 9 July 2008	40%
10 July 2004 to 9 July 2008	30%
10 July 2005 to 9 July 2008	30%

According to the resolution passed by the Board by Directors in June 2000, a total of the 27,116,600 options were granted on 22 June 2000 to the senior management, including directors, and certain other employees (which represent, on their full exercise, 27,116,600 shares of the Company) under a fixed award pre-global offering share scheme adopted by the Company on 1 June 2000 ("Pre-Global Offering Option Scheme") in the following terms:

(i) the exercise price is equivalent to the share issue price of the Global Offering of HK$15.42 per share (excluding the brokerage fee and HKSE transaction levy); and

(ii) the options are exercisable after 2 years from the grant date and expire 10 years from the date of grant.

No further option can be granted under the Pre-Global Offering Option Scheme.

The Pre-Global Offering Share Option Scheme had been amended in conjunction with the amended terms of the Share Option Scheme on 13 May 2002, apart from the above two terms, the principal terms of which are the same as the Share Option Scheme in all material aspects.

All of the options granted are governed by the amended terms of the Share Option Scheme and Pre-Global Offering Share Option Scheme as mentioned above.

No options have been exercised or forfeited since the date of grant under the Share Option Scheme and Pre-Global Offering Share Option Scheme and up to the date when the Board of Directors approved the financial statements.

31. COMMENCEMENT OF CDMA BUSINESS

(a) Leasing of CDMA network capacity

In November 2001, CUCL entered into a conditional CDMA capacity lease agreement (the "CDMA Lease Agreement") with Unicom Group and Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon", a subsidiary of Unicom Group). Pursuant to the CDMA Lease Agreement, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL covering the 9 provinces of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei and the 3 municipalities of Beijing, Shanghai and Tianjian.

Major terms of the CDMA Lease Agreement include the following:

- CUCL has the exclusive right to lease and operate the CDMA network capacity in the above regions;
- The term of the CDMA Lease Agreement is for an initial period of 1 year (the "Initial Lease Term"), renewable for further one year terms at the option of CUCL;
- The lease fee per unit of capacity is determined at the outset of the CDMA Leasing Agreement;
- CUCL has the option to add or reduce the capacity leased by giving specified period of advance notice. There is no minimum requirement on the network capacity to be leased beyond the Initial Lease Term; and
- CUCL has the option to purchase the network assets. The acquisition price will be negotiated between CUCL and Unicom New Horizon, based on the appraised value of the network determined by an independent appraiser, provided that it will not exceed such price as would, add together with any lease payments made previously, enable Unicom New Horizon to recover its investment with an internal rate of return of 8%.

Commencement of the CDMA Lease Agreement was conditional upon, among others, the testing and initial acceptance and delivery of phase I of the CDMA network and the receipt of all necessary government approvals. Upon the fulfillment of all the conditions precedent to the commencement of the CDMA Lease Agreement, the Initial Lease Term commenced in January 2002. This lease arrangement has been accounted for as an operating lease of the network assets.

In addition, Unicom New Century has also entered into a CDMA network capacity lease agreement with Unicom Group and Unicom New Horizon. The terms of this leasing arrangement are in all material respects the same as those contained in the CDMA Leasing Agreement entered into by CUCL as described above. Under this lease, Unicom New Horizon has agreed to lease the capacity of the CDMA network to Unicom New Century covering the 8 provinces and 1 municipality of Sichuan, Heilongjiang, Jilin, Henan, Jiangxi, Guangxi, Xinjiang, Shannxi and Chongqing.

31. COMMENCEMENT OF CDMA BUSINESS (continued)

(b) CDMA handset costs

As part of the arrangement with certain CDMA contractual subscribers under special promotion packages, CDMA mobile phone handsets were provided to certain subscribers for their use at no additional cost during the specified contract periods ranging from 6 months to 2 years.

Under the terms of these contracts, subscribers are required to spend a minimum amount of service fees during the contract periods. In addition, to secure future performance, these subscribers are also required to (i) prepay services fees or deposits, (ii) maintain a restricted bank deposits in a designated commerical banks to secure the minimum contract amount, or (iii) provide the Group with a guarantor who will compensate the Group for any loss upon their contract non-performance. The costs of CDMA handsets under the above contractual arrangements are treated as deferred customer acquisition costs and, to the extent recoverable based on management periodic assessment, are amortised over the contractual period (not exceeding 2 years) to match with the Group's minimum contract revenue. For the year ended 31 December 2002, amortisation of these deferred customer acquisition costs amounted to approximately RMB1,385 million, which was recorded in "selling and marketing" expenses. As of 31 December 2002, the carrying amount of unamortised deferred customer acquisition cost totaled RMB5,983 million (included RMB1,816 million relating to Unicom New Century), with approximately RMB5,474 million recorded in "other assets" (for contract period over 1 year and included RMB1,536 million relating to Unicom New Century) and with approximately RMB509 million recorded in "prepayments and other current assets" (for contract period within 1 year and included RMB280 million relating to Unicom New Century) (see Notes 18 and 21).

As of 31 December 2002, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB2,775 million.

32. RELATED PARTY TRANSACTIONS

The table set forth below summarises the name of significant related parties and nature of relationship with the Company as of 31 December 2002:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate parent company
Unicom NewSpace Co., Ltd ("Unicom NewSpace", originally known as China United Telecommunications Satellite Communication Company Limited, which changed to its present name on 10 July 2002)	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye")	A subsidiary of Unicom Group
Beijing Unicom Xingye Science and Technology Company Limited ("Beijing Xingye")	A subsidiary of Unicom Group
Unicom Import and Export Company Limited ("Unicom I/E Co")	A subsidiary of Unicom Group
China Unicom International Limited ("Unicom International")	A subsidiary of Unicom Group
Unicom International (HK) Limited ("Unicom International (HK)")	A subsidiary of Unicom Group
Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon")	A subsidiary of Unicom Group
China Unicom Corporation Limited ("CUCL")	A subsidiary of the Company
Unicom New Century Telecommunications Corporation Limited ("Unicom New Century")	A subsidiary of the Company
Guoxin Paging Corporation Ltd. ("Guoxin")	A subsidiary of the Company
Unicom Guomai Communications Corporation Limited ("Unicom Guomai")	A subsidiary of the Company

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group

The following is a summary of significant recurring transactions carried out with Unicom Group and its subsidiaries. These transactions also constitute connected transactions under the Listing Rules. In the directors' opinion, these transactions were carried out on normal commercial terms in the ordinary course of business.

	Note	2002 RMB '000	2001 RMB '000
Transactions with Unicom Group and its subsidiaries:			
Interconnection and roaming revenues	*(i), (iii)*	1,678,637	875,305
Interconnection and roaming charges	*(ii), (iii)*	331,179	298,828
Rental charges for premises, equipment and facilities	*(iv)*	21,251	21,257
Rental income for premises and facilities	*(iv)*	3,434	—
Revenue for leasing of transmission line capacity	*(v)*	566,519	216,113
Commission revenue for sales agency services	*(vi)*	—	14,560
Sales of CDMA mobile handsets	*(vii)*	487,850	—
Charges for the international gateway services	*(viii)*	15,626	—
Leasing of satellite transmission capacity	*(ix)*	35,153	61,778
Purchase of telecom cards	*(x)*	877,221	1,255,533
CDMA network capacity lease rental	*(xi)*	891,897	—
Commission expenses for sales agency services incurred for telecom cards	*(xii)*	18,497	2,616
Rental charges for leasing of transmission line	*(xiii)*	—	16,882
Agency fee incurred for procurement of telecommunications equipment	*(xiv)*	13,992	124,451
Rental for the PRC corporate office	*(xv)*	7,598	10,131
Sales of telecommunications equipment	*(xvi)*	16,088	—

Notes:

(i) Interconnection revenues represent the amounts received or receivable from Unicom Group for calls from its networks to the Group's networks. Roaming revenues represent revenue for calls made using the Group's networks by Unicom Group's subscribers.

(ii) Interconnection charges are for calls made from the Group's networks to Unicom Group's networks. Roaming expenses represent expenses for calls made by the Group's subscribers using Unicom Group's networks.

(iii) Interconnection settlement between Unicom Group's network and the Group's network is based on standards established from time to time by the MII. In the case of calls between cellular subscribers in different provinces, settlement is based on either the standards established by the MII or an internal settlement arrangement applied by Unicom Group based on their respective internal costs of providing this service. Also, charges for roaming services between the Group and Unicom Group are based on their respective internal costs of providing these services.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group (continued)

(iv) CUCL and Unicom Group signed service agreements to mutually lease premises, equipment and facilities from each other. Rentals are based on the lower of depreciation costs and market rates.

(v) Unicom Group leases transmission line capacity from the Group in accordance with the relevant provision of the services agreement. Revenue for leases of transmission line capacity is based on tariffs stipulated by MII from time to time less a discount of up to 10%.

(vi) Guoxin acts as the sales agent of Unicom Group to sell telecommunications products (such as SIM cards and prepaid cards) in 2001. In return, Guoxin receives agency commission from Unicom Group at fixed rates based on commission rates stipulated by Unicom Group applicable to third party sales agents. This agency services was terminated in April 2001.

(vii) According to the sales of CDMA mobile phones agreement entered into between Unicom Group and Unicom Guomai on 10 May 2002, Unicom Group agreed to purchase CDMA mobile phone handsets from Unicom Guomai. The selling price is negotiated on an arm's length basis, which is not lower than the price sold by Unicom Guomai to independent third parties.

(viii) Charges for international gateway services represent the amounts paid or payable to Unicom Group for international gateway services provided for the Group's international long distance networks. The charge for this service is based on the cost of operation and maintenance of the international gateway facilities incurred by Unicom Group, including depreciation, together with a margin of 10% over cost.

(ix) Satellite transmission capacity leasing fees represent the amounts paid or payable to Unicom NewSpace for the use of satellite transmission capacity. The charges are based on the MII regulations then in effect less the applicable discount up to 10% as agreed with Unicom NewSpace.

(x) The Group purchased SIM cards, UIM cards, Internet protocol phone cards and prepaid rechargeable calling cards at fixed prices from Unicom Xingye. Upon the establishment of CUCL in 2000, CUCL signed a service agreement with Unicom Group to purchase telecom cards from Unicom Group (to be imported by Unicom Xingye) at cost plus a margin to be agreed from time to time, but not to exceed 20%, and subject to appropriate volume discounts.

(xi) According to the CDMA Lease Agreement entered into among CUCL, Unicom Group and Unicom New Horizon, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL covering 9 provinces and 3 municipalities. The lease fee per unit of capacity is calculated on a basis that if full capacity is leased, it would permit Unicom New Horizon to recover its investment in constructing the CDMA network in 7 years, together with an internal return of 8% (See Note 31(a)).

(xii) Unicom International and Unicom International (HK) provided sales agency services such as selling of telecommunications cards, leased lines and transfer calls to the Group. The commission expenses are charged based on contractual prices which approximated market rates.

(xiii) In 2001, the Group leased transmission line capacity from Unicom International (HK) and Unicom International in accordance with the relevant provision of the services agreement. Leased line expenses are charged based on market rates. There were no leased line rental charges in 2002 since this service was terminated in October 2001.

(xiv) CUCL signed a service agreement with Unicom I/E Co., in which Unicom I/E Co. agreed to provide equipment procurement services to CUCL. Unicom I/E Co. charges the Group 0.7% of the value of imported equipment and 0.5% of the value of domestic equipment for such services.

(xv) CUCL signed a rental agreement with Beijing Xingye, under which Beijing Xingye leases office premises to CUCL at its PRC corporate office. Monthly rental is calculated on the basis of US$ 20 per square meter. This rental agreement was terminated in September 2002.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group (continued)

(xvi) Based on a resolution passed by the shareholders of Unicom Guomai on 23 April 2002, Unicom Guomai agreed to sell telecommunications equipment to certain branches of Unicom Group, these contracts were obtained by Unicom Guomai through a tendering process and the contract prices were negotiated on an arm's length basis.

(xvii) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark license agreement entered into between Unicom Group and CUCL, CUCL and its affiliates are granted the right to use these trademarks on a royalty free basis for an initial period of 5 years, renewable at China Unicom's option.

(xviii) According to the Multiple Service Agreement (the "Agreement") signed between the Group and Unicom Paging Limited ("Unicom Paging", a subsidiary of Unicom Group) dated 1 August 2001, the Group and Unicom Paging agree to share the right to use the other party's logo and trademark in the paging business at no cost. In addition, the Agreement also specifies the basis of allocating common expenses incurred by each party for any shared resources and facilities. For the years ended 31 December 2002 and 2001, the amount of common expenses involved was insignificant.

(b) Amounts due from and to related parties

Amounts due from and to related parties are unsecured, non-interest bearing, repayable on demand and arise in the ordinary course of business in respect of transactions with subsidiaries of Unicom Group as described in (a) above.

(c) Amounts due to Unicom Group

The following table summarises the activities between the Group and Unicom Group and the resulting balance due to Unicom Group:

	The Group	
	2002 RMB'000	2001 RMB'000
Due to Unicom Group, beginning of year	947,934	821,797
Interconnection and roaming revenues	(1,678,637)	(875,305)
Interconnection and roaming charges	331,179	298,828
Revenue for leasing of transmission line capacity and premises and facilities	(569,953)	(216,113)
Rental charges for premises, equipment and facilities	21,251	21,257
Commission revenue for sales agency services	—	14,560
Sales of CDMA mobile handsets	(487,850)	—
Charges for the international gateway services	15,626	—
Network construction costs paid by Unicom Group for CUCL of fixed-line networks	112,474	702,614
Repaid in current year	1,032,163	180,296
Increase of amounts due to Unicom Group arising from the acquisition of Unicom New Century	838,446	—
Due to Unicom Group, end of year	562,633	947,934

The outstanding amounts were unsecured, non-interest bearing and repayable on demand. The average outstanding balances during 2002 were approximately RMB755,284,000 (2001: RMB884,866,000).

32. RELATED PARTY TRANSACTIONS (continued)

(d) Short-term loans from Unicom Group

Short-term loans from Unicom Group represented loans provided by Unicom Group to relevant branches of Unicom New Century to finance the operations of the Cellular Business. These loans were borrowed by Unicom Group from banks at the interest rate of 4.54%. These bank loans were identified as attributable to the relevant branches of Unicom New Century based on the amount of funds actually utilised by the GSM Business. The corresponding interest expenses were also charged to these relevant branches based on funds actually utilised. All of these loans were guaranteed by Unicom Group.

(e) Bank loans guaranteed by Unicom Group

The Group has approximately RMB12,635 million (2001: RMB4,253 million) of long-term bank loans and RMB463 million (2001: RMB200 million) of short-term bank loans guaranteed by Unicom Group.

33. TRANSACTIONS WITH DOMESTIC CARRIERS

The Group's telecommunications networks depend, in large part, on interconnection with domestic carriers' public switched telephone network and on transmission lines leased from major domestic carriers. Major domestic carriers include China Telecommunications Corporation and its subsidiaries ("China Telecom"), China Mobile Communications Corporation and its subsidiaries ("China Mobile") and China Netcom Corporation and its subsidiaries ("China Netcom") in 2002.

(a) Transactions with domestic carriers

The following is a summary of significant transactions with domestic carriers:

		The Group	
	Note	2002 RMB'000	2001 RMB'000
Interconnection revenue	*(i)*	771,751	461,133
Interconnection charges	*(i)*	2,666,186	1,375,852
Leased line charges	*(ii)*	680,508	668,386
Operating lease charges	*(iii)*	12,370	33,127
Agency fee on collection of revenue	*(iv)*	3,663	2,665

Notes:

(i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's cellular networks and the public switched telephone network of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII.

(ii) Leased line charges are paid or payable to domestic carriers by the Group for leasing domestic carriers' transmission line. The charges are calculated at a fixed charge per line, depending on the number of lines being used.

(iii) Guoxin has signed operating lease agreements with the relevant domestic carriers for the use of certain land and buildings. The rentals are based on the market rates in the locality of the land and building.

(iv) Guoxin has signed agency agreements with the relevant domestic carriers for sales agency services based on standard commission rates, being the prevailing market rates in the locality. Charges for collection services are calculated at a fixed percentage of fees collected from subscribers.

33. TRANSACTIONS WITH DOMESTIC CARRIERS (continued)

(b) Amounts due from and to domestic carriers

	The Group 2002 RMB'000	The Group 2001 RMB'000
Amounts due from domestic carriers		
- revenue collected on behalf of Guoxin	260,578	258,317
- less: provision for doubtful debts	(49,116)	(58,857)
	211,462	199,460
Amounts due to domestic carriers		
- payables for interconnection charges, leased lines, operating leases and agency fees, etc.	1,123,580	742,366
Long-term payable due to domestic carriers		
- payables for obligations under finance leases:		
- current portion of obligations under finance leases	16,793	8,151
- obligations under finance leases	101,302	100,757
	118,095	108,908

All amounts due from and to domestic carriers were unsecured, non-interest bearing and repayable within one year.

Long-term payable for obligations under finance lease was related to the leasing of certain subsea transmission cables from a domestic carrier for a period of 25 years (See Note 28).

34. SEGMENT INFORMATION

Operating segments represent components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker, or decision making group, when considering how to allocate resources and in assessing performance.

The Group organises its business segments based on the various types of telecommunications services provided to customers in the PRC. The major business segments operated by the Group are classified as below:

- GSM Business — the provision of GSM telephone and related services;
- CDMA Business — the provision of CDMA telephone and related services (the operation commenced in 2002);
- Data and Internet Business — the provision of domestic and international data, Internet and other related services;
- Long Distance Business — the provision of domestic and international long distance and other related services; and
- Paging Business — the provision of paging and related services.

34. SEGMENT INFORMATION (continued)

The operating segments are managed separately because each operating segment represents a strategic business unit that provides various kinds of telecommunication services. All the operating segments of the Group have been aggregated into the above reportable segments since they are expected to exhibit similar future economic characteristics under central management at separate locations.

The Group's primary measure of segment results is based on segment profit (loss) before taxation.

(a) Business segments

	2002								2001							
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000
Operating Revenue (Turnover):																
Usage fee	20,274,987	2,231,050	2,069,415	1,223,051	–	–		25,798,503	14,937,448	–	1,566,149	554,848	–	–		17,058,445
Monthly fee	4,169,129	713,483	9,478	–	1,912,786	–		6,804,876	3,660,473	–	–	–	4,141,232	–		7,801,705
Connection fee	–	–	–	–	–	–		–	204,986	–	–	–	1,595	–		206,581
Interconnection revenue	1,709,771	184,296	348,248	664,302	113,123	–		3,019,740	1,262,267	–	132,741	591,883	–	–		1,986,891
Leased lines rental	–	–	274,274	873,054	–	–		1,147,328	–	–	102,804	324,391	–	–		427,195
Other revenue	1,234,038	96,518	91,624	5,316	135,279	–		1,562,775	439,884	–	18,517	17,611	198,997	–		675,009
Total services revenue	27,387,925	3,225,347	2,793,039	2,765,723	2,161,188	–		38,333,222	20,505,058	–	1,820,211	1,488,733	4,341,824	–		28,155,826
Sales of telecommunications products	721,100	423,057	5,631	13,258	1,080,257	–		2,243,303	820,585	–	–	–	416,475	–		1,237,060
Total operating revenue from external customers	28,109,025	3,648,404	2,798,670	2,778,981	3,241,445	–		40,576,525	21,325,643	–	1,820,211	1,488,733	4,758,299	–		29,392,886
Intersegment revenue	–	–	559,888	682,423	731,009	–	(1,973,320)	–	651	–	303,357	866,572	66,734	–	(1,237,314)	–
Total operating revenues	28,109,025	3,648,404	3,358,558	3,461,404	3,972,454	–		40,576,525	21,326,294	–	2,123,568	2,355,305	4,825,033	–		29,392,886
Operating expenses:																
Leased lines and network capacities	(205,374)	(932,994)	(221,028)	(93,079)	(136,024)	–	5,244	(1,583,255)	(533,455)	–	(415,280)	(15,252)	(307,348)	–	418,029	(853,306)
Interconnection charges	(3,386,592)	(279,440)	(408,843)	(555,470)	–	–	1,400,705	(3,229,640)	(2,195,396)	–	(475,703)	(158,642)	–	–	757,157	(2,072,584)
Depreciation and amortisation	(8,322,549)	(100,902)	(697,188)	(687,420)	(1,442,836)	(4,829)		(11,255,724)	(5,556,317)	–	(342,411)	(604,961)	(1,754,973)	(3,634)		(8,262,296)
Personnel	(1,780,173)	(281,243)	(396,150)	(290,977)	(555,261)	(31,414)		(3,335,218)	(1,106,962)	–	(250,493)	(159,619)	(937,198)	(32,946)		(2,487,218)
Selling and marketing	(2,663,531)	(2,126,475)	(651,594)	(305,505)	(238,640)	–	4,797	(5,980,948)	(2,486,867)	–	(551,839)	(157,015)	(478,478)	–	61,309	(3,612,890)
General, administrative and other expenses	(3,370,938)	(506,715)	(590,531)	(501,657)	(597,427)	(65,726)	1,144	(5,631,850)	(3,046,235)	–	(358,486)	(285,596)	(1,760,688)	(48,811)	819	(5,498,997)
Cost of telecommunications products sold (Note 32(a))	(744,640)	(408,791)	(11,299)	(5,049)	(1,626,157)	–	559,730	(2,236,206)	(788,218)	–	–	–	(554,026)	–		(1,342,244)
Total operating expenses	(20,473,797)	(4,636,560)	(2,976,633)	(2,439,157)	(4,596,345)	(101,969)		(33,252,841)	(15,713,450)	–	(2,394,212)	(1,381,085)	(5,792,711)	(85,391)		(24,129,535)

34. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	2002 GSM Business RMB'000	2002 CDMA Business RMB'000	2002 Internet and Data Business RMB'000	2002 Long Distance Business RMB'000	2002 Paging Business RMB'000	2002 Unallocated amounts RMB'000	2002 Elimination RMB'000	2002 Total RMB'000	2001 GSM Business RMB'000	2001 CDMA Business RMB'000	2001 Internet and Data Business RMB'000	2001 Long Distance Business RMB'000	2001 Paging Business RMB'000	2001 Unallocated amounts RMB'000	2001 Elimination RMB'000	2001 Total RMB'000
Operating profit (loss)	7,635,228	(988,156)	381,925	1,022,247	(623,891)	(101,969)		7,323,684	5,612,844	–	(270,644)	974,220	(967,678)	(85,391)		5,263,351
Interest income	48,503	4,146	4,525	5,516	17,374	390,218		470,282	31,544	–	2,099	979	23,493	2,038,857		2,096,972
Finance Costs	(1,287,443)	(47,979)	(72,864)	(48,789)	(8,348)	(9,018)		(1,474,441)	(1,560,826)	–	(72,883)	(243,288)	(40,569)	–		(1,917,566)
Other (expenses) income, net	(46,889)	(10)	(2,562)	(152)	24,993	8,261		(16,359)	(842)	–	(952)	(592)	(6,159)	28,376		19,831
Segment profit (loss) before taxation	6,349,399	(1,031,999)	311,024	978,822	(589,872)	287,492		6,303,166	4,082,720	–	(342,380)	731,319	(990,913)	1,981,842		5,462,588
Taxation								(1,752,346)								(1,041,137)
Profit after taxation								4,550,820								4,421,451
Minority interests								15,252								35,310
Profit attributable to shareholders								4,566,072								4,456,761
Total segment assets	97,483,508	5,724,427	7,081,704	13,876,837	8,410,871	58,016,167	(41,370,609)	149,222,905	65,320,115	–	3,047,975	14,009,739	11,306,153	34,220,910		127,904,892
Total segment liabilities	67,666,655	5,788,290	2,785,794	3,826,692	2,205,343	136,639		82,409,413	52,359,025	–	1,151,090	8,574,130	3,278,990	31,089		65,394,324
Other information:																
Provision (write-back) for doubtful debts	802,914	42,050	70,922	46,124	9,979	–		971,989	517,663	–	24,743	13,058	(14,510)	–		540,954
Equity investment for segment assets	–	–	–	–	3,814	–		3,814	–	–	–	–	4,146	–		4,146
Impairment loss recognised in the income statement	–	–	–	–	38,797	–		38,797	–	–	–	–	632,551	–		632,511
Capital expenditures for segment assets (1)	7,899,442	–	3,247,507	3,343,330	208,460	4,236,036		18,934,775	20,777,990	–	3,447,123	3,884,937	549,338	2,594,071		31,253,459

(1) Capital expenditures classified under "unallocated amounts" represent capital expenditure on common facilities, which benefit all business segments.

(b) Geographical segments

The Group's services users are mainly in the PRC. There is no other geographical segment with segment revenue from external customers equal to or greater than 10% of total consolidated revenue from sales to all external customers.

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment, goodwill and other assets) are situated in the mainland China, as the Group's principal activities are conducted in the PRC. For the year ended 31 December 2002, substantially all capital expenditures were incurred to acquire assets located in the mainland China. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, short term bank deposits, trading securities, accounts receivables, prepayment and other current assets, amounts due from related parties and domestic carriers. Financial liabilities of the Group include accounts payable and accrued liabilities, bank loans, lease payables and due to related parties and domestic carriers. Cash and cash equivalents and short-term bank deposits denominated in foreign currencies as summarised below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as of 31 December 2002.

	The Group					
		2002			2001	
	Original currency '000	Exchange rate	RMB equivalent RMB'000	Original currency '000	Exchange rate	RMB equivalent RMB'000
Cash and cash equivalents:						
- denominated in HK$	1,103,579	1.06	1,170,787	1,777,224	1.06	1,886,523
- denominated in US dollars	785,328	8.27	6,497,476	899,868	8.28	7,448,635
Sub-total			7,668,263			9,335,158
Short-term deposits:						
- denominated in HK$	1,697,414	1.06	1,800,786	5,941,644	1.06	6,307,055
- denominated in US dollars	365,047	8.27	3,020,321	2,222,981	8.28	18,400,664
Sub-total			4,821,107			24,707,719
Total			12,489,370			34,042,877

The Group did not have and does not believe it will have any difficulty in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China. The carrying amounts of the Group's cash and cash equivalents, short term bank deposits, other current financial assets and liabilities approximated their fair value as of 31 December 2002 due to the nature or short maturity of those instruments.

The historical cost carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

The fair value of trading securities is estimated by reference to their quoted market price at the balance sheet date.

Investment securities are measured at cost as there is no quoted marked price in an active market and whose fair value cannot be reliably measured.

The carrying amounts of long-term bank loans approximate their fair values based on prevailing market borrowing rates available for comparable bank loans with similar terms and maturities.

36. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

As of 31 December 2002 and 2001, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group 2002			2001
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Total RMB'000
Authorised and contracted for	1,131,055	5,131,164	6,262,219	9,956,935
Authorised but not contracted for	12,940	2,623,215	2,636,155	78,676
Total	1,143,995	7,754,379	8,898,374	10,035,611

As of 31 December 2002, approximately RMB385 million (2001: RMB662 million) of capital commitment outstanding was denominated in US dollars (i.e. US$47 million (2001: US$80 million)).

(b) Operating lease commitments

As of 31 December 2002 and 2001, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	The Group 2002				2001
	Land and buildings RMB'000	Equipment RMB'000	CDMA network RMB'000	Total RMB'000	Total RMB'000
Leases expiring:	311,835	274,140	3,045,600	3,631,575	1,954,961
- not later than one year	920,038	493,826	—	1,413,864	803,480
- later than one year and not later than five years					
- later than five years	875,894	255,273	—	1,131,167	759,696
Leases expiring:	2,107,767	1,023,239	3,045,600	6,176,606	3,518,137

In relation to the CDMA network capacity leasing arrangement as described in Note 31 (a), the above commitment is estimated based on the forecasted CDMA subscriber growth with the anticipated capacity of the lease for the year ending 31 December 2003.

As of 31 December 2002 and 2001, the Company had total future aggregate minimum operating leases payments under operating leases as follows:

	The Company 2002			2001
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Total RMB'000
Leases expiring in:				
- not later than one year	7,647	—	7,647	1,550
- later than one year and not later than five years	762	5,304	6,066	22,641
- later than five years	—	—	—	—
Total	8,409	5,304	13,713	24,191

36. CONTINGENCIES AND COMMITMENTS (continued)

(c) Commitment to purchase CDMA handsets

As of 31 December 2002, the Group committed to purchase CDMA handsets amounted to approximately RMB870 million.

(d) Contingent liability

For the year ended 31 December 2002, Unicom Guomai provided guarantees for bank loans borrowed by Shanghai Telecommunications Company Limited (formally known as "Shanghai Provincial Post and Telecommunications Administrations") amounted to approximately US$23.48 million. All these bank loans were not yet due as of 31 December 2002.

37. EVENTS AFTER BALANCE SHEET DATE

(a) Related party transaction with Unicom Group

Unicom Guomai entered into a supplemental agreement with Unicom Group on 9 January 2003 and agreed to sell up to 120,000 CDMA handsets for a maximum of RMB240 million to Unicom Group. This supplemental agreement is entered into based on the terms similar to the CDMA handsets purchase agreement between Unicom Guomai and Unicom Group dated 10 May 2002.

(b) Additional investment to CUCL

Subsequent to 2002, the Company increased its investment in CUCL by cash of approximately RMB4,467 million on 21 January 2003.

(c) Tax approvals subsequently obtained

On 27 February and 11 March 2003, CUCL obtained relevant tax approvals to include certain losses on disposal of assets and provision of doubtful debts (previously treated as non-deductible against current tax) amounted to approximately RMB102 million and RMB57 million respectively, as tax deductible items for the year ended 31 December 2002. CUCL has accounted for the above tax effects when filing its tax return for the year ended 31 December 2002.

38. COMPARATIVE FIGURES

Certain comparative figures in the cash flow statements have been reclassified in accordance with new disclosure requirement under new HK SSAP adopted in current year.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 1 April 2003.