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 to engage in the provision of cellular, paging, long distance, data and Internet services in the PRC. 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 telecommunication businesses were carried out by the head office and various branches of China United Telecommunications Corporation ("Unicom Group"). These businesses are hereinafter collectively referred to as the "Predecessor Entities". All such businesses were transferred to the Company pursuant to a restructuring (the "Restructuring"), as described below, in preparation for a global offering of the Company's shares (the "Global Offering").

Prior to and following the Restructuring, Unicom Group and Guoxin were and are under the supervision and regulation of the Ministry of Information Industry (the "MII"). The MII is a body established in 1998 under the direct supervision of the State Council of the PRC to take over the regulatory responsibility for the telecommunications industry in the PRC from its predecessor, the Ministry of Posts and Telecommunications (the "MPT").

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 and fixed line local and domestic long distance networks in the PRC.

Guoxin was a subsidiary of China Telecom and was established as a limited liability company in September 1998. China Telecom originally comprised the Directorate General of Telecommunications, Provincial Post and Telecommunications Administrations (the "PTA") and the municipal and county Post and Telecommunications Bureaus (the "PTB"). All the entities were state-owned entities established under the ownership of the government. As ministries of the government, the MPT exercised actual control over the operations of China Telecom.

Guoxin operates a nationwide paging business through its 31 subsidiaries in 27 provinces and 4 municipalities in the PRC (originally undertaken by the PTAs, hereinafter referred to as the "Paging Business"). After the establishment of Guoxin, the Paging Business continued to operate under the ultimate control of the MII, until June 1999 when, pursuant to a State Council decision, the 99.67% ownership interest in Guoxin held by China Telecom was transferred to Unicom Group at no consideration.

Under the Restructuring, Unicom Group injected its entire equity interest in Guoxin, together with the following businesses, into a limited liability company established in the PRC on 21 April, 2000 under the name of China Unicom Corporation Limited ("China Unicom"):

(i) the 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 (originally undertaken by various branches of Unicom Group and hereinafter collectively referred to as the "Cellular Business");

(ii) the nationwide domestic and international long distance telephony business including Internet protocol-based telephony businesses and the nationwide data and Internet business in major cities of the PRC (originally undertaken by various branches of Unicom Group, hereinafter referred to as the "Long Distance, Data and Internet Business").

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Cont'd)

Immediately following the injection of the equity interests in Guoxin and the above telecommunications businesses into China Unicom, the Company, Unicom Group, China Unicom (Hong Kong) Group Limited (a wholly owned subsidiary of Unicom Group) ("Unicom HK"), and China Unicom (BVI) Limited (a wholly owned subsidiary of Unicom HK) ("Unicom BVI") entered into an equity transfer agreement whereby Unicom Group transferred its entire interest in China Unicom to the Company. The Company then issued shares to Unicom BVI which in turn issued shares to Unicom HK which in turn issued shares to Unicom Group.

The Company and its subsidiaries are hereinafter referred to as the "Group".

The directors of the Company consider Unicom Group to be the ultimate parent company.

2. BASIS OF PRESENTATION

The reorganisation of Guoxin and the subsequent transfer of its ownership to Unicom Group were completed pursuant to restructuring plans for the telecommunications industry of the PRC approved by the State Council and implemented through the MII. Prior to and following the Restructuring, Unicom Group and Guoxin were and are both governed by the strategic-planning and policy-making mechanism of the State Council and the MII. Accordingly, the reorganisation of Guoxin and the combination of Unicom Group and Guoxin are considered to be a reorganisation of businesses under the common control of the State Council. In addition, upon the transfer of the ownership interest in Guoxin from China Telecom to Unicom Group, Unicom Group controlled all the Predecessor Entities prior to the Restructuring and continues to control the Company after the Restructuring. Accordingly, the series of combination of the various telecommunication businesses and the transfer of these businesses from Unicom Group to the Company as described in Note 1 above have been accounted for as a reorganisation of entities under common control by using merger accounting as if the Group had been operating continuously throughout the periods presented.

On the basis described above, the financial statements have been prepared to present the results of operations and cash flows of the Predecessor Entities, now comprising the Group, for the two years ended 31 December, 1999 and 2000 and the financial position of the Group as of 31 December, 1999 and 2000 as if the state-owned interests in the Group had been held continuously by the Group since 1 January, 1999 and the business activities had been conducted by the Group throughout the two years. Consequently, the assets, liabilities, revenues and expenses that were clearly identifiable with the businesses and operations transferred to the Group are included at their recorded amounts. Other amounts for which the specific identification method was not practical are not material and are allocated on the following basis:

Items allocated	Allocation Basis
Salaries	Number of employees
Accounting and legal services	Number of employees
Training	Number of employees
Retirement Benefits	Number of employees
Rent and depreciation	Floor area
Other selling, general and administrative expenses	Number of employees/revenue

Management believed that the above is a reasonable basis of estimating what the Group's expenses would have been on a stand-alone basis.

2. BASIS OF PRESENTATION (Cont'd)

The financial statements have been prepared in accordance with the accounting principals generally accepted in Hong Kong ("HK GAAP"). The basis of accounting differs from that used in the management accounts of financial statements, which were prepared in accordance with the accounting principles and financial regulation applicable to enterprises established in the People's Republic of China ("PRC GAAP")

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

- Additional provision for doubtful debts;
- Writedown of inventory to net realizable value;
- Writedown of property, plant and equipment to recoverable amount;
- Reversal of revaluation surplus and related depreciation and amortization charges arising form the revaluation of assets performed by independent valuers registered in the PRC;
- Reversal of expenses included in deferred assets;
- Additional accrual for retirement benefits;
- Additional provision for housing benefits;
- Provision for deferred taxation; and
- Recognized loss arising from the terminations of the CCF arrangements as one-time losses.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in the preparation of the financial statements for the year ended 31 December, 2000, which conform to HK GAAP, are as follows:

(a) Basis of consolidation

The consolidated financial statements include the financial statement of China Unicom Limited and its subsidiaries. All significant intercompany transactions and balances, and any unrealized gains arising from intercompany transactions, have been eliminated on consolidation.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assupmtions that affect the reported amount of assets, liabilities, revenue and expenses and the disclosure of contingencies. Actual results may differ from those estimates and assupmtions.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation. 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. When the expenditure results in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the fixed assets.

Land and buildings are stated at valuation. Independent valuations are performed periodically, the last valuation having been performed on 31 March, 2000. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value.

Any increase in land 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.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, after taking into consideration their estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life	Residual value
Land use rights	Over the period of grant	—
Buildings	8 – 40 years	3%
Leasehold improvements	Over the lease term	—
Telecommunications equipment	4 – 11 years	3%
Office, furniture and fixtures and other	4 – 14 years	3%

The carrying amount of property, plant and equipment stated at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense unless it reverses a previous revaluation increase, in which case, it is charged against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. In determining the recoverable amount, expected future cash flows generated by the property, plant and equipment are discounted to their present values.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Property, plant and equipment (Cont'd)

A subsequent increase in the recoverable amount is written back to the income statement when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

When assets are sold or retired, their costs or valuation and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

(d) Construction-in-progress

Construction-in-progress represents buildings under construction and plant and equipment pending installation, and is stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction or installation and testing. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use.

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair values of the separately identifiable assets acquired in a business combination. Goodwill is amortised using the straight-line method over the economic lives of the acquired businesses, estimated to be five to seven years. When later events and circumstances occur which indicate the remaining 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 undiscounted net future cash flows of the related business over the remaining life of the goodwill.

(f) Deferred expenditures and amortisation

Deferred expenditures represent (i) expenditures on facilities for interconnection with other operators, for which the Group has a permanent use right, and (ii) housing benefits arising from selling staff quarters to employees at preferential prices lower than cost. Expenditures on interconnection facilities are amortised using the straight-line method over the expected period of benefit of five years. Housing benefits are amortised to expense using the straight-line method over the estimated service lives of the employees.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Investments

Investment securities

Equity securities intended to be held on a continuing basis are classified as investment securities and recorded at cost less provision for diminution in value.

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. If such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense unless there is evidence that the decline is temporary.

Provisions against the carrying value of investment securities are reversed when the circumstances and events that led to the writedowns 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 or transfer of trading securities, profit or loss thereon is accounted for in the income statement.

Trading securities

Trading securities represent government bonds and marketable securities held for dealing purposes and are carried at market value in current assets in the balance sheet. Unrealised holding gains and losses are recognised in the income statement in the year when they arise.

(h) Subsidiaries

A subsidiary is an enterprise in which the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment or otherwise has the power to control the financial and operating policies of the enterprise.

In the Company's standalone, unconsolidated balance sheet, investment in subsidiaries is stated at cost less any provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement to the extent of dividends declared.

(i) Associated companies

An associated company is an enterprise in which the Company has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Associated companies (Cont'd)

In the consolidated financial statements, investment in associated companies is accounted for under the equity method, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associated company, distributions received from the associated company and other adjustments arising from changes in the equity of the associated company that have not been included in the income statement.

Where, in the opinion of the directors, there is an impairment in value 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 in value.

(j) Cash and cash equivalents

Cash and cash equivalents represent cash on hand and liquid investments with original maturities of three months or less.

(k) Short term bank deposits

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

(l) Inventories

Inventories, which principally comprise handsets, SIM cards, pagers and accessories, are carried at the lower of cost or 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 the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognised. Writedowns for declines in net realisable value or for losses of inventories are recognised as an expense in the year the impairment or loss occurs.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Advances from customers

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

(n) Operating Leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rental payments under operating leases are charged to expense based on the straight-line method over the period of the leases.

(o) Borrowing costs

Interest is expensed as incurred, except for interest directly attributable to a construction project, which is capitalised as part of the cost of the project. Interest is capitalised at the weighted average cost of the related borrowings up to the date when the project is completed and ready for its intended use. The capitalised interest rate represents the cost of capital from raising the related borrowings externally and varies from 4.95% to 6.66% for the year ended 31 December, 2000 (1999: 5.85% to 8.64%). Other borrowing costs are recognised as expenses when incurred.

(p) Revenue recognition

(1) Revenue is recognised when it is probable that the economic benefits will accrue to the Group and when it can be measured reliably, on the following bases:

- 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;
- Revenue from IP card and other calling card sales, which represents prepaid service fees received from customers for telephony services, is recognised when the related service is rendered upon actual usage of the telephone cards by customers;
- Leased line rental income is recognised on the straight-line basis over the lease term;
- Sales of telecommunication products, such as handsets, SIM cards and pagers, are recognised when title has passed to the buyers.

(2) Interest income

Interest income from deposits in banks or other financial institutions is recognised on the accrual basis.

3. **PRINCIPAL ACCOUNTING POLICIES (Cont'd)**

(q) Foreign currency translation

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

(r) Retirement benefits

The cost of providing retirement benefits under defined benefit schemes is charged to expense over the expected service lives of the employees. The fixed contributions for retirement benefits made under defined contribution schemes are charged to expense as incurred.

(s) Taxation

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.

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, except where it is considered probable that no liability will arise or no asset will 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) Net income per share and per American Depository Share ("ADS")

Basic net income per shares has been computed by dividing the net income by the number of weighted average number of ordinary shares outstanding during the year.

Diluted net income per share has been computed by dividing the net income by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

Basic and diluted net income 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. REVENUE

Revenue is primarily comprised of usage fees, monthly fees, connection fees and interconnection revenue earned by the Group by providing cellular, paging, long distance, data and Internet services. Tariffs for these services are subject to regulations by various government authorities, including the State Development Planning Commission, the MII and the provincial regulatory authorities.

Revenue is net of business tax, government surcharges and central irrigation construction levy, where applicable.

The major components of the revenue are as follows:

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
Cellular Business			
Usage fee	(i)(a)	**8,212,332**	3,188,850
Monthly fee	(ii)	**2,476,104**	1,116,696
Connection fee	(iii)	**517,642**	673,912
Interconnection revenue	(iv)	**753,591**	207,978
Other revenue	(vi)	**228,135**	126,813
Total Cellular Business revenue		**12,187,804**	5,314,249
Paging Business			
Monthly fee	(ii)	**7,992,999**	8,901,275
Connection fee	(iii)	**68,233**	93,790
Other revenue	(vi)	**422,258**	51,846
Total Paging Business revenue		**8,483,490**	9,046,911
Long distance, Data and Internet Business			
Usage fee	(i)(b)	**470,526**	79,159
Monthly fee	(ii)	**7,076**	—
Interconnection revenue	(iv)	**293,745**	—
Leased lines rental	(v)	**321,255**	—
Other revenue	(vi)	**3,792**	—
Total Long distance, Data and Internet Business revenue		**1,096,394**	79,159
Total service revenue		**21,767,688**	14,440,319
Sales of telecommunication products		**1,924,770**	3,009,688
Total revenue		**23,692,458**	17,450,007

4. REVENUE (Cont'd)

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.

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

(ii) Monthly fees represent fixed amounts charged to cellular, paging, and data and Internet 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 subscribers to the Group's network or to reconfigure the receiving frequency of the subscribers' pagers to the Group's paging network.

(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.

(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 commission revenue for providing agency services to sell telecommunication products for Unicom Group and revenue from the provision of value-added services to subscribers.

5. NET FINANCIAL INCOME (CHARGES)

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
Interest income	(i)	**1,748,805**	105,595
Interest expenses		**(1,353,746)**	(808,806)
		395,059	(703,211)

Note:

(i) Interest income for year 2000 mainly arose from the proceeds of the Global Offering.

6. INCOME BEFORE TAXATION AND MINORITY INTERESTS

Income before taxation and minority interests is arrived at after crediting and charging the following:

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
After crediting:			
Interest income		**1,748,805**	105,595
Share of profits from associated companies		**258**	6,202
Dividend from investment securities		**9,321**	—
Realised gain on trading securities		**64,956**	3,387
Unrealised gain on trading securities		**31,855**	1,357
Realised gain on investment securities		**—**	11,274
After charging:			
Interest expense:			
Interest on bank loans repayable within five years		**1,558,090**	57,866
Interest on loans from Unicom Group repayable within five years		**48,313**	456,898
Interest on loans from CCF joint ventures repayable within five years		**—**	568,727
Less: amounts capitalised in construction-in-progress		**(252,657)**	(274,685)
Total interest expense		**1,353,746**	808,806
Depreciation and amortisation		**5,734,315**	3,691,019
Operating lease rental expenses		**546,165**	466,493
Repair and maintenance expenses		**635,197**	379,021
Write-off of redundant property, plant and equipment	8(i)	**41,686**	129,347
Loss on disposal of property, plant and equipment		**277,973**	—
Auditors' remuneration		**47,030**	10,262
Write-off or provision for doubtful debts			
— Cellular Business		**355,082**	193,232
— Paging Business		**85,430**	93,434
— Long distance, Data and Internet Business		**4,319**	—
Contributions to defined contribution pension schemes	12	**148,322**	142,841
Housing benefits	13	**4,038**	53,323
Contributions to housing fund	13	**44,333**	38,660
Provision for impairment in value of associated companies		**7,501**	12,468
Provision for impairment in value of investment securities		**6,812**	3,390

7. OPERATING EXPENSES

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

(i) Leased line charges are incurred in association with leasing of transmission capacity from other operators.

(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, bonuses and medical benefits, contributions to employee retirement schemes and housing benefits.

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

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Operating lease expense	**546,165**	466,493
Repair and maintenance expenses	**635,197**	379,021
Write-off or provision for doubtful debts		
— Cellular Business	**355,082**	193,232
— Paging Business	**85,430**	93,434
— Long distance, Data and Internet Business	**4,319**	—
Loss on disposal of fixed assets	**277,973**	—
Travelling, entertainment and meeting expenses	**389,335**	188,409
Other	**1,449,562**	1,265,813
	3,743,063	2,586,402

8. OTHER INCOME (EXPENSES), NET

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
Write-off of redundant fixed assets	(i)	**(41,686)**	(129,347)
Realised gains on trading securities		**64,956**	3,387
Unrealised gains on trading securities		**31,855**	1,357
Share of profits from associated companies		**258**	6,202
Other		**3,846**	(10,942)
		59,229	(129,343)

Note:

(i) The write-off of redundant fixed assets mainly represented the disposal of obsolete paging equipment caused by the integration and optimisation of the country-wide paging networks after the separation of Guoxin from China Telecom.

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

Prior to the incorporation of the Company, as branches of Unicom Group, the Cellular Business and the Long Distance, Data and Internet Business had no directors and senior management of their own, but operated under the management of Unicom Group. Similarly, prior to the establishment of Guoxin, the Paging Business was under the management of the PTAs and did not have its own senior management, and there were no directors in the management structure of the PTAs. Accordingly, the following information for 1999 represent emoluments paid by Unicom Group to its directors, senior executives and supervisors. For 2000, the information represents emoluments paid to the directors, senior executives and supervisors of the Company.

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Fees for executive directors	**—**	—
Fees for non-executive directors	**—**	—
Fees for supervisors	**—**	—
Other emoluments for executive directors:		
— basic salaries and allowances	**2,825**	110
— bonus	**222**	35
— retirement benefits	**52**	87
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**—**	—
Total emoluments	**3,099**	232

The annual emoluments paid during the year ended 31 December, 2000 to each of the directors (including the five highest paid employees) were below RMB1 million.

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

Details of emoluments paid to the five highest-paid individuals (senior executives) are:

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Basic salaries and allowances	**2,825**	269
Bonus	**222**	84
Retirement benefits	**52**	201
	3,099	554
Number of directors	**5**	2
Number of employees	**—**	3

No emolument was paid to the five highest-paid individuals (including directors and employees) as an inducement to join or upon joining the Company or as compensation for loss of office.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed in Note 30.

10. TAXATION

Provision for taxation represents:

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
PRC enterprise income tax	**1,619,169**	647,285
Deferred taxation	**(514,200)**	(91,626)
	1,104,969	555,659

There is no Hong Kong profits tax liabilities as the Group does not have any assessable income sourced from Hong Kong for the year ended 31 December, 2000.

(Amounts expressed in RMB unless otherwise stated)

10. TAXATION (Cont'd)

Cellular and Long Distance, Data and Internet Businesses

For 1999, the provincial branches and the head office of Unicom Group were not themselves subject to enterprise income tax individually because Unicom Group was assessed for income tax liability on a consolidated basis as a single entity and was subject to the statutory tax rate of 33%. The tax provisions for the Cellular Business and Long Distance, Data and Internet Business of the Group were determined on a separate return basis using the aforementioned tax policy applicable to Unicom Group. Under this basis, the tax liabilities attributable to the Cellular Business and Long Distance, Data and Internet Business of the Group for 1999 were determined as if they were assessable for income tax separately from Unicom Group.

For 2000, the provincial branches and the head office of China Unicom was assessed for income tax liability on a consolidated basis as a single entity and were subject to the statutory tax rate of 33%.

Paging Business

Most of Guoxin' s subsidiaries were subject to enterprise income tax at the rate of 33%. However, the tax authorities in certain provinces have granted certain subsidiaries a reduced income tax rate of 15%.

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

	Year ended 31 December,	
	2000	1999
PRC		
Statutory tax rate of 33%	**33.0%**	33.0%
Non-deductible expenses	**5.4**	7.5
Non-taxable income:		
— Connection fees	**(2.6)**	(12.2)
Effect of tax holiday	**(1.3)**	(4.4)
Non-recognition of deferred taxes	**3.8**	6.2
Other	**(0.2)**	1.5
Effective PRC income tax rate	**38.1**	31.6
Hong Kong		
Statutory tax rate of 16.5%	**16.5%**	N/A
Non-taxable income:		
— Interest income	**(16.5)**	—
Effective HK income tax rate	**—**	—
Total overall effective income tax rate	**24.7**	31.6

10. TAXATION (Cont'd)

Tax effect of tax holiday is as follows:

	Year ended 31 December, 2000	1999
Aggregate amount (RMB in millions)	**37.9**	77.0
Per share effect (RMB)	**0.003**	0.008

Deferred taxation represents the taxation effect of the following timing differences:

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Deferred tax assets:		
Interest on loans from CCF joint ventures	**439,479**	505,075
Loss arising from terminations of CCF Arrangements	**298,331**	74,009
Income tax on advances from customers for telephone cards	**189,915**	—
Operating loss of the Cellular Business	**14,709**	14,709
Difference in goodwill amortisation period	**18,284**	44,002
Provision for doubtful debts	**46,450**	47,001
Write-off of deferred expenditures	**136,848**	35,160
Writedown of inventory to net realisable value	**21,856**	31,431
Amortisation of retirement benefits	**41,241**	63,264
Other	**86,120**	10,308
	1,293,233	824,959
Deferred tax liabilities:		
Accelerated depreciation for tax purpose	**(239,143)**	(270,955)
Other	**(40,370)**	(54,484)
	(279,513)	(325,439)
Net deferred tax assets	**1,013,720**	499,520
Less: current portion of deferred tax assets	**(19,642)**	(13,687)
	994,078	485,833

10. TAXATION (Cont'd)

Deferred tax assets not recognised consist of the following:

	Consolidated As of 31 December,	
	2000	1999
	RMB'000	RMB'000
Tax effect of provision for doubtful debts	**228,061**	109,459
Tax effect of operating loss of a subsidiary	**107,299**	83,717
Deferral of revenue from IP card sales	**—**	28,389

11. CHINA-CHINA-FOREIGN ARRANGEMENTS AND THEIR TERMINATIONS

In the process of developing its cellular network, the Cellular Business entered into cooperation agreements with certain contractual joint venture companies (the "CJVs") established in the PRC. Each CJV was established by one or more Chinese enterprises and one or more foreign parties. The cooperation arrangements between the Cellular Business and the CJVs are hereinafter referred to as the China-China-Foreign Arrangements (the "CCF Arrangements").

Pursuant to the CCF Arrangements, the CJVs extended funding to the Cellular Business for the construction of telecommunication systems and network equipment in the PRC. Upon completion of construction, the Cellular Business was responsible for operating the systems. In return for funding the construction of the cellular networks, the CJVs were entitled to receive (usually on an annual or semi-annual basis) from the Cellular Business a fixed proportion of the cash flows generated from the operations of the cellular networks. It was anticipated at the inception of the CCF Arrangements that such periodic distributions of cash would be sufficient for the CJVs to recover their principal together with a reasonable return. The cooperation periods under these CCF Arrangements generally ranged from twelve to fifteen years. As security, the fixed assets during the cooperation periods were held by the CJVs in a manner similar to a pledging arrangement under a mortgage loan. Accordingly, the CCF Arrangements were accounted for as secured financing arrangements. At the end of the cooperation periods, the CJVs' rights to share the cash flows from the cellular networks and the security rights in the underlying fixed assets were to be relinquished.

The estimated costs of the funding provided by the CJVs were accrued over the cooperation periods and accounted for as interest costs. The accrual was made using the then-prevailing market interest rates applicable to long-term bank loans which ranged from 6.21% to 8.01% for 1999. As all CCF Arrangements were terminated in early 2000, no further interest was accrued during the year.

11. CHINA-CHINA-FOREIGN ARRANGEMENTS AND THEIR TERMINATION (Cont'd)

The periodic cash distribution to the CJVs in excess of the accrued interest payable is accounted for as repayment of principal. Since the amount and the timing of the periodic cash distributions to the CJVs were not fixed and depended on the actual cash flows generated by the operations of the cellular networks, the CCF Arrangements are treated as long-term borrowings with no fixed repayment schedules. The entire outstanding amounts of approximately RMB6,200 million in relation to those CCF Arrangements terminated in 2000 (as further discussed below) are classified as current liabilities as of 31 December, 1999.

Certain CCF Arrangements were terminated in 1999 and all the remaining CCF Arrangements were terminated in 2000. Pursuant to the termination agreements signed between the CJVs and Unicom Group, compensation in the form of cash and share warrants was paid to the CJVs. The aggregate losses arising from the extinguishment of these CCF debts amounted to approximately RMB1,194 million for 2000 (1999: RMB224 million). The losses were calculated based on the difference between the net carrying amounts of the outstanding CCF debts being terminated, which amounted to approximately RMB6,263 million for 2000 (1999: RMB1,777 million), and the total cash compensation amounts of approximately RMB7,457 million for 2000 (1999: RMB2,001 million) made to the CJVs.

Substantially all of the total cash compensation of approximately RMB7,457 million (1999: RMB2,001 million) was financed by long-term bank loans originally borrowed by Unicom Group, which have been restructured into long-term loans borrowed directly by China Unicom in 2000 (see Note 32(b)).

Apart from the cash compensation, share warrants were granted to the CJVs or their designees as part of the compensation for the termination of the CCF Arrangements in 2000. These share warrants allow the holders to subscribe for new shares of the Company at the initial public offering price. The total exercise value of the share warrants granted to the CJVs or their designees is fixed, amounting to approximately RMB5,024 million in aggregate. The exercise period will last for six months following the date that is six months after the Global Offering, 22 June, 2000.

12. 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 is required to make contributions to the state-sponsored pension scheme at the rate of 19.1% for 2000 (1999: 19.1%) 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 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.

12. RETIREMENT BENEFITS (Cont'd)

Prior to 31 May, 1998, the Paging Business also provided a defined benefit supplementary pension plan managed by China Telecom. The average annual supplementary pension payment was approximately RMB2,000 to RMB5,000 per retiree as of 31 May, 1998. The estimated pension costs were amortised over the service period of the retirees. Upon Guoxin's establishment, China Telecom agreed to take up the pension liabilities under this supplementary pension scheme for approximately 3,000 employees of China Telecom who had worked for the Paging Business before their retirement prior to 31 May, 1998. In return, Guoxin agreed to pay China Telecom approximately RMB163 million which approximated the accrued pension liabilities for this group of retirees as of 31 May, 1998. Thereafter, Guoxin ceased to provide this supplementary pension scheme to its employees. An actuarial valuation was carried out by Towers Perrin, Inc., which is registered in the Society of Actuaries in the United States of America, for this group of retirees as of 31 May, 1998 to evaluate the funding adequacy of the accrued pension liabilities for the supplementary pension. In the opinion of the actuary, the aforementioned funding was sufficient to cover 100% of the accrued pension liabilities of this group of retirees as of 31 May, 1998 on the basis provided by the Group. The key assumptions used by the actuary in the actuarial valuation are a discount rate of 2.5% per annum and the China Life Annuitant Mortality Table.

Retirement benefits charged to the income statement are as follows:

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Contributions to defined contribution pension schemes	**148,322**	142,841

13. 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 Cellular 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 2000 (1999: RMB15.6 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.

13. HOUSING BENEFITS (Cont'd)

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 of 5% (1999: 5%) of the employees' basic salaries.

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):

	Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Housing benefits	**4,038**	53,323
Contributions to housing fund	**44,333**	38,660
	48,371	91,983

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.

In addition, this central government policy is to be implemented at the provincial and municipal level in accordance with detailed regulations to be formulated by the local government bodies. As of 31 December, 2000, certain local government authorities issued local rules and regulations on the housing reform scheme and others had not. All these rules and regulations do not impose a deadline on the implementation. The Directors of the Group considers that there is no legal obligation to implement the monetary housing subsidies scheme as of 31 December, 2000.

In addition, the Group has not yet formulated the detailed terms and scope of its monetary housing subsidies scheme. Factors like the number of employees qualified for such scheme, calculation basis of the amount of subsidies to be paid, the length of vesting period, and other relevant terms have not been determined. Accordingly, the total amount of housing subsidies to be paid upon finalisation of such scheme cannot be estimated reliably at this stage and no provision for such cost has been recorded as of 31 December, 2000.

14. DISTRIBUTION OF INCOME

Prior to the Restructuring, the Cellular Business received funding from Unicom Group. Similarly, the Paging Business prior to the establishment of Guoxin received funding from China Telecom. Such funding was recorded as head office account. Prior to the Restructuring, retained earnings or accumulated deficits were recorded as changes in head office account. Periodically, the Cellular Business and the Paging Business made cash distributions to Unicom Group or to China Telecom. These cash distributions were deducted from head office account.

On 21 April, 2000, China Unicom was established as a foreign investment enterprise in the PRC. In accordance with the Article of Association of China Unicom, China Unicom is required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from net income after taxation but before dividend distribution. China Unicom is required to allocate at least 10% of its after tax income determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The general reserve fund can only be used, upon approval by 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 year ended 31 December, 2000, no appropriation to staff bonus and welfare fund has been made.

For the year ended 31 December, 2000, China Unicom appropriated approximately RMB424,805, 000 to the statutory reserve (1999 : Nil).

For the year ended 31 December, 2000, income attributable to shareholders includes a profit of approximately RMB1,584,848,000 (1999: Nil) which has been dealt with in the accounts of the Company. As of 31 December, 2000, the amount of distributable reserves of the Company amounted to approximately RMB1,584,848,000 (1999: Nil).

The Board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December, 2000.

15. NET INCOME PER SHARE

Net income per share and per American Depository Share ("ADS")

Basic net income per share for the year ended 31 December, 1999 has been computed by dividing the net income by the number of shares outstanding immediately prior to the Global Offering in June 2000 without adjusting for the pro forma changes in the number of new shares that resulted from additional contributions from Unicom Group over time.

Basic net income per share for the year ended 31 December, 2000 has been computed by dividing the net income by the weighted average number of ordinary shares outstanding during the year, assuming the Company had been in existence since 1 January, 2000.

15. NET INCOME PER SHARE (Cont'd)

Net income per share and per American Depository Share ("ADS") (Cont'd)

Diluted net income per share for the year ended 31 December, 2000 has been computed by dividing the net income by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the directors or senior management under the Pre-Global Offering Share Option Scheme as described in Note 30 and share warrants granted to the CJVs or their designees as part of the compensation for the terminations of the CCF arrangements (see Note 11), which if converted to ordinary shares would decrease net income per share.

Basic and diluted net income per ADS have been computed by multiplying the net income 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 net income per share computations:

	Year ended 31 December,					
	2000			1999		
	Net income RMB'000	**Shares '000**	**Per share amount RMB**	Net income RMB'000	Shares '000	Per share amount RMB
Basic net income	**3,234,051**	**11,208,224**	**0.29**	839,147	9,725,000	0.09
Effect of conversion of stock options and share warrants	**—**	**11,455**	**—**	—	—	—
Diluted net income	**3,234,051**	**11,219,679**	**0.29**	839,147	9,725,000	N/A

16. TRADING SECURITIES

	Consolidated As of 31 December,					
	2000			1999		
	Debt securities RMB'000	**Equity securities RMB'000**	**Total RMB'000**	Debt securities RMB'000	Equity securities RMB'000	Total RMB'000
Unlisted trading securities in the PRC, at fair value	**—**	**373,405**	**373,405**	286,385	—	286,385
Listed trading securities in the PRC, at market value	**—**	**—**	**—**	—	170,000	170,000
	—	**373,405**	**373,405**	286,385	170,000	456,385

16. TRADING SECURITIES (Cont'd)

As of 31 December, 1999 and 2000, all debt securities had maturities of less than one year. The realised and unrealised gains on trading securities for the year ended 31 December, 2000 amounted to approximately RMB64,956,000 (1999: RMB3,387,000) and RMB31,855,000 (1999: RMB1,357,000) respectively. There have been no significant changes in the market value of the listed securities after the balance sheet date.

17. ACCOUNTS RECEIVABLE, NET

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Accounts receivable for Cellular Business	**1,890,338**	1,131,147
Accounts receivable for Paging Business	**109,813**	171,615
Accounts receivable for Long Distance, Data and Internet Business	**216,794**	—
Sub-total	**2,216,945**	1,302,762
Less: Provision for doubtful debts for Cellular Business	**(620,935)**	(344,738)
Provision for doubtful debts for Paging Business	**(46,641)**	(62,523)
Provision for doubtful debts for Long Distance, Data and Internet Business	**(4,318)**	—
	1,545,051	895,501

The aging analysis of accounts receivable was as follows:

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Less than six months	**1,970,206**	1,153,204
Six months to one year	**246,739**	149,558
	2,216,945	1,302,762

18. INVENTORIES

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Handsets and telephone cards	**219,201**	65,911
Pagers	**371,967**	557,564
Other	**88,521**	110,931
	679,689	734,406

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000	The Company 2000 RMB'000	1999 RMB'000
Prepayment for acquisition of minority interests	(i)	**—**	228,917	**—**	—
Deposits and prepayments		**797,192**	277,600	**—**	—
Interest receivable		**665,657**	—	**665,657**	—
Advances to employees		**31,663**	50,610	**—**	—
Other		**171,149**	246,855	**3,796**	—
		1,665,661	803,982	**669,453**	—

Note:

(i) As of 31 December, 1999, a prepayment was made by Guoxin for the planned future acquisition of minority interests in three provincial subsidiaries. Such purchases of minority interests have been accounted for using the acquisition method when consummated.

20. PROPERTY, PLANT AND EQUIPMENT, NET

	Consolidated						
	2000						1999
	Land and buildings RMB'000	Telecommunications 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	2,136,302	30,611,097	1,193,767	315,965	6,063,292	40,320,423	23,811,092
Revaluations	148,853	—	—	—	—	148,853	—
Additions	572,148	1,544,640	380,105	304,889	22,529,708	25,331,490	17,018,936
Transfer from CIP	1,345,093	13,648,787	462,747	—	(15,456,627)	—	—
Disposals	(159,012)	(468,568)	(42,075)	(897)	—	(670,552)	(509,605)
End of year	4,043,384	45,335,956	1,994,544	619,957	13,136,373	65,130,214	40,320,423
Representing:							
At cost	1,340,304	45,335,956	1,994,544	619,957	13,136,373	62,427,134	40,320,423
At valuation	2,703,080	—	—	—	—	2,703,080	—
	4,043,384	45,335,956	1,994,544	619,957	13,136,373	65,130,214	40,320,423
Accumulated depreciation:							
Beginning of year	159,320	6,577,688	268,205	88,602	—	7,093,815	3,958,062
Revaluations	12,610	—	—	—	—	12,610	—
Charge for the year	224,339	4,822,978	346,542	117,186	—	5,511,045	3,516,011
Disposals	(3,911)	(307,909)	(38,176)	(897)	—	(350,893)	(380,258)
End of year	392,358	11,092,757	576,571	204,891	—	12,266,577	7,093,815
Net book value:							
End of year	3,651,026	34,243,199	1,417,973	415,066	13,136,373	52,863,637	33,226,608
Beginning of year	1,976,982	24,033,409	925,562	227,363	6,063,292	33,226,608	19,853,030

20. PROPERTY, PLANT AND EQUIPMENT, NET (Cont'd)

	The Company 2000		
	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:			
Beginning of year	—	—	—
Additions	5,255	5,400	10,655
End of year	5,255	5,400	10,655
Accumulated depreciation:			
Beginning of year	—	—	—
Charge for the year	190	174	364
End of year	190	174	364
Net book value, end of year	5,065	5,226	10,291

As of 31 December, 1999, approximately RMB7,798 million of property, plant and equipment at cost was financed by the CCF Arrangements described in Note 11.

As of 31 December, 2000, approximately RMB6,993 million (1999: RMB6,766 million) of property, plant and equipment at cost was pledged to banks as loan security.

As of 31 December, 2000, prepayments for property, plant and equipment to be used in construction have been included in construction-in-progress, amounting to RMB1,376 million (1999: RMB1,403 million).

For the year ended 31 December, 2000, interest of approximately RMB253 million (1999: RMB275 million) was capitalised to construction-in-progress.

Land 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 RMB12.6 million for the year ended 31 December, 2000. The revaluation deficit was charged to the income statement for the year ended 31 December, 2000.

21. GOODWILL

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Cost	**519,999**	483,101
Less: Accumulated amortisation	**(224,037)**	(123,256)
	295,962	359,845

Goodwill represents the excess of purchase consideration over the fair values of the separately identifiable assets acquired for (i) certain local Paging Businesses controlled by the PTA during the restructuring of Guoxin in 1998, amounting to RMB448 million and (ii) minority interests in the provincial subsidiaries of Guoxin after its establishment.

In 1999, Guoxin acquired the minority interests held by provincial trade unions in three provinces for a total cash consideration of approximately RMB228 million. The total fair value of the proportionate share in the net assets of these subsidiaries amounted to approximately RMB222 million. The excess payment of approximately RMB6 million was accounted for as goodwill.

In 2000, Guoxin acquired the minority interests in 28 provincial and municipal subsidiaries. The total purchase consideration amounted to approximately RMB1,803 million. The minority owners' aggregate share of the fair value of net assets as of the effective dates of acquisition were approximately RMB1,779 million and goodwill arising from the acquisition of minority interests amounted to RMB24 million.

In addition, according to two equity transfer agreements dated 24 April, 2000, China Unicom acquired the remaining 0.33% equity interests in Guoxin from two minority owners in 2000. This was accounted for using the acquisition method of accounting. The total purchase consideration amounted to approximately RMB26 million and the resulting goodwill was insignificant.

The amortisation charges of goodwill for the year ended 31 December, 2000 amounted to approximately RMB100,781,000 (1999: RMB80,476,000).

22. DEFERRED EXPENDITURES

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Interconnection facilities	**477,367**	497,170
Long-term prepaid rental	**374,566**	220,759
Other	**240,486**	141,984
	1,092,419	859,913
Less: Accumulated amortisation	**(286,550)**	(176,671)
	805,869	683,242

Amortisation of deferred expenditures for the year ended 31 December, 2000 amounted to approximately RMB109,879,000 (1999: RMB94,532,000).

23. INVESTMENT SECURITIES

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Unlisted equity securities in the PRC, at cost	**109,147**	98,244
Less: Provision for impairment in value	**(20,202)**	(13,390)
	88,945	84,854

24. INVESTMENTS IN SUBSIDIARIES

	The Company As of 31 December, 2000 RMB'000	1999 RMB'000
Unlisted equity investments, at cost	**8,542,833**	—

The Company has direct or indirect interests in the following principal subsidiaries. All of these subsidiaries are privately-held limited companies except Unicom Guomai Communications Co., Ltd. (previously known as Shanghai Guomai Communications Co. Ltd.) whose class A shares are listed on the Shanghai Stock Exchange.

As of 31 December, 2000, the details of the Company's subsidiaries 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
China Unicom Corporation Limited	The PRC, 21 April, 2000	100.00%	—	6,502,490	Telecommunications operation
Guoxin Paging Corporation Ltd.	The PRC 17 September, 1998	—	100.00%	6,825,088	Investment holding
Auhui Guoxin Paging Co., Ltd.	The PRC, 28 October, 1998	—	100.00%	263,150	Paging operation
Beijing Telecommunications Paging Co., Ltd.	The PRC, 10 April, 1998	—	100.00%	133,661	Paging operation
Chongqing Guoxin Telecommunications Co., Ltd.	The PRC, 21 September, 1998	—	100.00%	121,913	Paging operation
Fujian Guoxin Telecommunications Co., Ltd.	The PRC, 27 November, 1998	—	100.00%	825,302	Paging operation

24. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Gansu Guoxin Telecommunications Co., Ltd.	The PRC, 13 November, 1998	—	100.00%	90,463	Paging operation
Guangdong Guoxin Telecommunications Co., Ltd.	The PRC, 30 September, 1998	—	100.00%	1,473,802	Paging operation
Guangxi Guoxin Telecommunications Co., Ltd.	The PRC, 16 October, 1998	—	100.00%	175,752	Paging operation
Guizhou Guoxin Telecommunications Co., Ltd.	The PRC, 8 December, 1998	—	100.00%	62,622	Paging operation
Hainan Guoxin Telecommunications Co., Ltd.	The PRC, 8 October, 1998	—	100.00%	102,029	Paging operation
Hebei Guoxin Telecommunications Co., Ltd.	The PRC, 24 November, 1998	—	100.00%	196,683	Paging operation
Heilongjiang Guoxin Paging Co., Ltd.	The PRC, 10 November, 1998	—	91.39%	349,828	Paging operation
Henan Guoxin Telecommunications Co., Ltd.	The PRC, 26 October, 1998	—	100.00%	257,919	Paging operation
Hubei Guoxin Telecommunications Co., Ltd.	The PRC, 9 November, 1998	—	100.00%	124,396	Paging operation
Hunan Guoxin Telecommunications Co., Ltd.	The PRC, 20 November, 1998	—	100.00%	236,331	Paging operation

24. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Inner Mongolia Guoxin Telecommunications Co., Ltd.	The PRC, 28 October, 1998	—	100.00%	113,305	Paging operation
Jiangsu Guoxin Telecommunications Co., Ltd.	The PRC, 25 March, 1998	—	100.00%	769,595	Paging operation
Jiangxi Guoxin Telecommunications Co., Ltd.	The PRC, 3 December, 1998	—	100.00%	152,140	Paging operation
Jilin Guoxin Telecommunications Co., Ltd.	The PRC, 8 October, 1998	—	100.00%	129,825	Paging operation
Liaoning Telecommunications Paging Co., Ltd.	The PRC, 11 November, 1998	—	70.85%	372,000	Paging operation
Ningxia Guoxin Telecommunications Co., Ltd.	The PRC, 15 October, 1998	—	100.00%	25,066	Paging operation
Qinghai Guoxin Telecommunications Co., Ltd.	The PRC, 27 November, 1998	—	100.00%	27,784	Paging operation
Shannxi Guoxin Telecommunications Co., Ltd.	The PRC, 11 December, 1998	—	100.00%	202,752	Paging operation
Shandong Guoxin Telecommunications Co., Ltd.	The PRC, 16 November, 1998	—	100.00%	341,674	Paging operation
Shanxi Guoxin Telecommunications Co., Ltd.	The PRC, 18 November, 1998	—	100.00%	104,761	Paging operation

24. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Sichuan Guoxin Telecommunications Co., Ltd.	The PRC, 30 September, 1998	—	99.15%	386,628	Paging operation
Tianjin Guoxin Paging Co., Ltd.	The PRC, 29 October, 1998	—	100.00%	70,220	Paging operation
Tibet Guoxin Paging Co., Ltd.	The PRC, 18 November, 1998	—	100.00%	26,669	Paging operation
Xinjiang Guoxin Telecommunications Co., Ltd.	The PRC, 27 October, 1998	—	100.00%	116,711	Paging operation
Yunnan Guoxin Telecommunications Co., Ltd.	The PRC, 28 September, 1998	—	100.00%	159,139	Paging operation
Zhejiang Guoxin Telecommunications Co., Ltd.	The PRC, 4 November, 1998	—	100.00%	467,876	Paging operation
Unicom Guomai Communications Co., Ltd.	The PRC, 24 November, 1992	—	58.88%	364,883	Paging operation

25. INVESTMENT IN ASSOCIATED COMPANIES

	Consolidated As of 31 December, 2000 RMB'000	1999 RMB'000
Cost	**51,145**	42,605
Share of net assets	**833**	5,123
	51,978	47,728
Less: Provision for impairment in value	**(26,278)**	(18,777)
	25,700	28,951

Full provision for impairment loss in respect of investments in certain associated companies was made in both 1999 and 2000 when management judged that the recoverable amount of these investments would be minimal based on the estimated discounted net future cash flows of the investment. In view of the persistent poor operating results of these associated companies, management concluded that the impairments were other than temporary.

As of 31 December, 2000 details of investment in associated companies were as follows:

Name	Place and date of incorporation	Percentage of equity interest held: Direct	Percentage of equity interest held: 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	Telecommunication technology
Jiangxi Guoxin Technology Co., Ltd.	The PRC, 27 May, 1999	—	23.80%	583	Telecommunication technology
Jiangxi Telecommunication Co., Ltd.	The PRC, 28 December, 1993	—	24.00%	7,750	Telecommunication technology
Shanghai Bilder Telecommunications and Construction Co., Ltd.	The PRC, 17 April, 1997	—	40.00%	20,000	Telecommunication technology
Shenzhen Jiaxun Co., Ltd.	The PRC, 12 January, 2000	—	45.00%	10,000	Telecommunication technology

25. INVESTMENT IN ASSOCIATED COMPANIES (Cont'd)

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Shanghai Tianhua Communications Co., Ltd.	The PRC, 16 October, 1997	—	40.00%	5,000	Telecommunication technology
Shanghai Guomai Communications and Technology Development Co., Ltd.	The PRC, 10 August, 1998	—	49.00%	1,000	Telecommunication technology
Shanghai Beiyan Labor Service Co., Ltd.	The PRC, 12 January, 1999	—	48.00%	500	Telecommunication technology
Suzhou Huihong Precision Metal Co., Ltd.	The PRC, 25 January, 1994	—	22.50%	13,245	Telecommunication technology
Chengdu Tongfa Champin Communications Co., Ltd.	The PRC, 23 April, 1993	—	40.00%	41,590	Telecommunication technology
Sichuan Sutong Expressway Communications Co., Ltd.	The PRC, 8 July, 1997	—	30.00%	36,667	Telecommunication technology

26. PAYABLES AND ACCRUED LIABILITIES

		Consolidated As of 31 December,		The Company As of 31 December,	
	Note	**2000 RMB'000**	1999 RMB'000	**2000 RMB'000**	1999 RMB'000
Payables to contractors and equipment suppliers		**10,539,987**	6,712,360	**—**	—
Accrued expenses		**745,043**	723,056	**7,848**	—
Payables to telecommunication products suppliers		**65,270**	523,068	**—**	—
Other	(i)	**1,170,867**	559,540	**—**	—
		12,521,167	8,518,024	**7,848**	—

Note:

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

As of 31 December, 2000, approximately RMB231 million (1999: RMB434 million) of payables to contractors land equipment suppliers was denominated in US dollars (i.e. US$28 million (1999: US$52.4 million)).

As of 31 December, 1999 and 2000, all payables to contractors, equipment suppliers and other payables to telecommunication products suppliers were aged within one year.

27. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.86% to 7.02% per annum and 4.52% to 7.72% per annum for 1999 and 2000, respectively.

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

Consolidated	**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, 1999	1,673,564	5.44%	1,688,564	988,064	5.69%
31 December, 2000	7,733,817	5.80%	7,733,817	4,711,191	5.62%

* 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.

27. SHORT-TERM BANK LOANS (Cont'd)

As of 31 December, 2000, short term bank loans of approximately RMB356 million (1999: RMB289 million) were secured by approximately RMB135 million (1999: RMB266 million) of fixed assets at cost and the service fee revenue to be generated by the Cellular Business of Anhui and Guangdong. In addition, short term bank loans of approximately RMB20 million (1999: RMB80 million) and approximately RMB1 million (1999: RMB15 million) were guaranteed by a provincial PTA and other local enterprises.

28. LONG-TERM BANK LOANS

		Consolidated As of 31 December,	
	Interest rate and final maturity	**2000 RMB'000**	1999 RMB'000
Renminbi denominated Bank loans	Fixed interest rate ranging from 4.95% to 6.66% per annum with maturity through 2007	**27,918,224**	1,752,472
Less: current portion		**(766,875)**	(20,232)
Total		**27,151,349**	1,732,240

During 2000, long-term bank loans of approximately RMB10,502 million which were previously borrowed by Unicom Group were restructured into long-term bank loans borrowed directly by China Unicom (see Note 32(b)).

28. LONG-TERM BANK LOANS (Cont'd)

The repayment schedule of the long-term bank loans as of 31 December, 2000 was as follows:

	RMB'000
Balances due:	
2001	766,875
2002	1,575,312
2003	11,758,691
2004	1,743,000
2005	11,027,622
Thereafter	1,046,724
	27,918,224
Less: Portion classified as current liabilities	(766,875)
	27,151,349

As of 31 December, 2000, long-term bank loans were secured by the following:

(i) approximately RMB1,481 million (1999: RMB882 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;

(ii) approximately RMB1,903 million (1999: RMB1,903 million) of long-term bank loans were secured by the five-year revenue streams of the Liaoning GSM project and Phases 4 and 5 of the Beijing GSM projects;

(iii) approximately RMB10,000 million (1999: Nil) of long-term bank loans were secured by cash received from ordinary operations.

(iv) approximately RMB100 million (1999: RMB95 million) of long-term bank loans were guaranteed by a provincial PTA.

29. SHARE CAPITAL

	As of 31 December, 2000 RMB'000
Authorised:	
30,000,000,000 ordinary shares of HK$0.1 each	**3,000,000**

	Number of shares ('000)	HK$' 000	As of 31 December, 2000 RMB equivalent RMB'000
Issued and fully paid:			
Unicom Group	9,725,000	972,500	1,030,850
Public investors	2,827,996	282,799	300,521
	12,552,996	1,255,299	1,331,371

Pursuant to the resolution passed on 21 April, 2000, 9,725,000,020 shares of HK$0.10 each were allotted and issued to Unicom BVI for the transfer of the entire interest in China Unicom to the Company.

Pursuant to the resolution passed on 20 June, 2000, the Company completed its Global Offering as follows:

(i) issued an aggregate of 2,459,127,000 shares of HK$0.10 each including an offering of 122,956,000 shares at HK$15.42 per share on The Stock Exchange of Hong Kong Limited ("HKSE") (excluding the brokerage fee and HKSE transaction levy) and an offering of 233,617,100 ADSs (each ADS represents 10 shares) at US$ 19.99 (HK$15.58) on the New York Stock Exchange Inc., on 22 June, 2000 and 21 June, 2000 respectively; and

(ii) issued 368,869,050 share of HK$0.10 each at HK$15.58 per share by way of a placing among professional and institutional investors on 3 July, 2000 upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned Global Offering of shares, net of direct listing expenses amounted to approximately RMB45,275,152,000. The resulting share premium amounted to approximately RMB44,974,631,000.

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 consideration payable by a participant for the grant of an option 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. As of 31 December, 2000, no options had been granted under this scheme.

On 1 June, 2000, the Company also adopted a fixed award pre-global offering share option scheme ("Pre-Global Offering Share Option Scheme"), the principal terms of which are the same as the Share Option Scheme in all material aspects except that:

(i) 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;

(ii) 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

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

As of 31 December, 2000, options to purchase 2,107,000 shares were granted to certain directors of the Group.

31. SHARE WARRANTS

On 22 June, 2000, share warrants were granted by the Company to the CJVs or their designees as part of the compensation for termination of the CCF Arrangements (see Note 11).

32. RELATED PARTY TRANSACTIONS

(a) Transactions with Unicom Group

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

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
Transactions with Unicom Group:			
Interconnection and roaming revenues	(i)	**339,536**	95,757
Interconnection and roaming charges	(ii)	**131,315**	23,309
Rental charges for premises, equipment and facilities	(iv)	**24,121**	24,270
Revenue for leasing of transmission line capacity	(v)	**168,556**	—
Commission revenue for sales agency services	(vi)	**259,981**	—
Transactions with subsidiaries of Unicom Group:			
Leasing of satellite transmission capacity	(vii)	**62,394**	29,680
Purchase of telecom cards	(viii)	**476,827**	333,576
Agency fee incurred for procurement of telecommunications equipment	(ix)	**54,421**	70,170
Rental for the PRC corporate office	(x)	**10,131**	—

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 or the subscribers of international operators with whom Unicom Group has entered into roaming agreements.

(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 or the networks of international operators with whom Unicom Group has entered into roaming agreements.

(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.

(iv) Prior to the establishment of China Unicom, the Group was provided with premises, equipment and facilities by Unicom Group. Rentals were paid based on the depreciated costs of the related premises, equipment and facilities. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement in accordance with which the Group leases premises, equipment and facilities from Unicom Group. Rentals are based on the lower of depreciation costs and market rates.

32. RELATED PARTY TRANSACTIONS (Cont'd)

(a) Transactions with Unicom Group (Cont'd)

(v) Following the Restructuring, 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 are based on tariffs stipulated by MII from time to time less a discount of up to 10%.

(vi) In 2000, Guoxin acts as the sales agent of Unicom Group to sell telecommunication products (such as SIM cards and prepaid cards). 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.

(vii) Satellite transmission capacity leasing fees represent the amounts paid or payable to China United Telecommunications Satellite Communication Company Limited ("Unisat"), a subsidiary of Unicom Group, 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 Unisat.

(viii) Prior to the establishment of China Unicom, the Group purchased subscriber identity module cards, Internet protocol phone cards and prepaid rechargeable calling cards at fixed prices from Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye"), a subsidiary of Unicom Group. Upon the establishment of China Unicom in 2000, China Unicom 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.

(ix) Prior to the establishment of China Unicom, the Group purchased certain foreign and domestic telecommunication equipment and materials through Unicom Import and Export Co., Ltd. ("Unicom I/E Co."), a subsidiary of Unicom Group, at an agency fee of 1% of the value of the equipment. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement with Unicom Group, in which Unicom Group agreed to provide equipment procurement services to China Unicom (through Unicom I/E Co.). 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.

(x) Upon the establishment of China Unicom, Unicom Group signed a rental agreement with Unicom Xingye, under which Unicom Xingye leases office premises to China Unicom at its PRC corporate office. Monthly rental is calculated on the basis of US$ 20 per square meter.

(xi) 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 China Unicom, China Unicom and its affiliates were granted the right to use these trademarks on a royalty free basis for an initial period of five years, renewable at China Unicom's option.

(b) Loans from Unicom Group

Loans of approximately RMB10,502 million as of 31 December, 1999 were provided by Unicom Group to finance the operations and network construction of the Cellular Business and to finance the settlement payments for the terminations of the CCF Arrangements as described in Note 11. In order to provide these loans to the Cellular Business, Unicom Group borrowed from various banks at the interest rates ranging from 5.85% to 7.20% for 2000 (1999: 5.85% to 8.64%). Unicom Group allocated these bank loans to the Cellular Business based on the amount of funds actually utilised by the Cellular Business. The corresponding interest expenses were also charged to the Cellular Business based on the loan amounts allocated. Upon the establishment of China Unicom in 2000, these loans were restructured into long-term loans borrowed directly by China Unicom.

32. RELATED PARTY TRANSACTIONS (Cont'd)

(c) 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.

(d) 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:

	Consolidated Year ended 31 December,	
	2000	1999
	RMB'000	RMB'000
Due to (from) Unicom Group, beginning of year	**505,367**	(6,755)
Interconnection and roaming revenues	**(339,536)**	(95,757)
Interconnection and roaming charges	**131,315**	23,309
CCF termination compensation financed by Unicom Group	**—**	529,843
Due to Unicom Group arising from network construction costs paid by Unicom Group for China Unicom	**524,651**	—
Repayment from Unicom Group	**—**	54,727
Due to Unicom Group, end of year	**821,797**	505,367

The outstanding amounts were unsecured, non-interest bearing and payable within one year. The average outstanding balances during 2000 were approximately RMB636,480,000 (1999: RMB280,533,000).

33. TRANSACTIONS WITH CHINA TELECOM

The Group's telecommunications operations depend, in large part, on interconnection with China Telecom's public switched telephone network and on transmission lines leased from China Telecom.

(a) Transactions with China Telecom

The following is a summary of significant transactions with China Telecom:

		Year ended 31 December,	
		2000	1999
	Note	**RMB'000**	RMB'000
Interconnection revenue	(i)	**298,596**	112,221
Interconnection charges	(i)	**1,145,913**	669,781
Leased line charges	(ii)	**1,008,077**	1,026,730
Operating lease charges	(iii)	**135,075**	455,686
Agency fee on collection of revenue	(iv)	**108,943**	32,132
Social service fees	(v)	**15,907**	240,632

Notes:

(i) The interconnection revenue and charges mainly represent the amounts due from or to China Telecom for cellular telephone calls made between the Group's cellular networks and the public switched telephone network of China Telecom. The interconnection settlements are calculated in accordance with interconnection agreements reached between the Cellular Business and China Telecom on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII. Effective from 1 October, 1999, under the new settlement standards, the Group no longer receives interconnection revenue for local calls made from the public switched telephone network to the Group's cellular subscribers.

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

(iii) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for the use of certain land and buildings at cost. Upon its establishment, Guoxin signed operating lease agreements with the PTAs 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) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for sales agency services at cost. Upon its establishment, Guoxin signed agency agreements with the PTAs 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.

(v) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for various social services, such as property management, meal and other social services, at cost. Upon its establishment, Guoxin signed social service agreements with China Telecom to provide such services at a fixed amount per employee annually.

33. TRANSACTIONS WITH CHINA TELECOM (Cont'd)

(b) Amounts due from and to China Telecom

	Consolidated As of 31 December, 2000 RMB'000	Consolidated As of 31 December, 1999 RMB'000
Amounts due from China Telecom		
— revenue collected on behalf of Guoxin	**485,434**	1,340,256
— less: provision for doubtful debts	**(109,188)**	(64,161)
	376,246	1,276,095
Amounts due to China Telecom		
— payables for interconnection charges, leased lines, operating leases, social service fees, etc	**1,276,965**	1,553,320

All amounts from and to China Telecom were unsecured, non-interest bearing and repayable within one year.

34. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents approximate their fair values because of the short maturity of those instruments. Cash denominated in foreign currencies has been translated to RMB at the applicable rates quoted by the People's Bank of China. 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 bank loans approximate their fair values based on borrowing rates currently available for bank loans with similar terms and maturities.

35. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

As of 31 December, 2000, the Group had capital commitments, mainly in relation to the construction of telecommunication networks, as follows:

	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000
Authorised and contracted for	1,411,650	9,336,338	10,747,988
Authorised but not contracted for	47,633	8,451,044	8,498,677
Total	1,459,283	17,787,382	19,246,665

As of 31 December, 2000, approximately RMB1,387 million (1999: RMB539 million) of capital commitment outstanding was denominated in US dollars (i.e. US$167 million (1999: US$65 million)).

(b) Operating lease commitments

As of 31 December, 2000, the Group had the following commitments under operating leases:

	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000
Leases expiring in:			
2001	474,524	786,718	1,261,242
2002	203,345	411,799	615,144
2003	157,940	143,193	301,133
2004	111,283	68,419	179,702
2005	89,014	46,139	135,153
Thereafter	458,682	22,642	481,324
Total	1,494,788	1,478,910	2,973,698

35. CONTINGENCIES AND COMMITMENTS (Cont'd)

(b) Operating lease commitments (Cont'd)

As of 31 December, 2000, the Company had the following commitments under operating leases:

	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000
Leases expiring in:			
2002	1,460	—	1,460
2003	6,883	—	6,883
Total	8,343	—	8,343

As of 31 December, 2000, the Group and the Company had no significant contingent liabilities.

36. CONCENTRATION OF RISK

Business risks

The Group conducts its operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities in the United States of America and Western European countries. These include risks associated with, among others, the political, economic and legal environments, influence of national authorities over tariff-setting and competition in the industry and spectrum availability.

New telecommunications law

In order to provide a uniform regulatory framework for the telecommunications industry in the PRC, the MII, pursuant to the direction of the PRC State Council, is currently preparing a draft telecommunications law of the PRC (the "Telecommunications Law"). The draft law, when formulated, will be submitted to the National People's Congress for review and adoption. It is unclear if and when the Telecommunications Law will be adopted, and the nature and scope of regulation envisaged by the Telecommunications Law are not fully known. There can be no assurance that the Telecommunications Law, if adopted, will not have a material adverse impact on the Group's business, financial conditions and results of operations.

Competition

The Cellular Business of the Group currently faces intense competition from China Mobile Communication Corporation ("China Mobile"). In addition, the Long Distance, Data and Internet Business of the Group also faces intense competition from China Telecom and other carriers in the PRC. China Mobile and China Telecom have competitive advantage over the Group in terms of geographic coverage, financial resources, and brand recognition. Intensified competition from China Mobile and China Telecom may adversely affect the business operations and financial conditions of the Group.

36. CONCENTRATION OF RISK (Cont'd)

Technological changes

The telecommunications industry is characterised by rapid and significant technological changes. The current telecommunications technologies of the Group may become obsolete or subject to competition from new technologies, which could increase subscriber churn rate, and adversely affect the results of operations and prospects of the Group.

Spectrum availability

The Group's telecommunications network is limited by the amount of spectrum allocated by the Chinese government. There is no assurance that the Group will be granted additional spectrum on acceptable terms. Any levels of system congestion could result in subscriber dissatisfaction, decreased system usage and increased churn rate, and any material increase in spectrum fees could adversely affect the results of operations of the Group.

Dependence on China Telecom's leased lines and interconnection arrangement

The Group's telecommunications businesses depend in large part upon access to China Telecom's public switched telephone network. Limitations on the public switched telephone network may lead to lower domestic, long-distance and international call completion rates for the Group's subscribers. There can be no assurance that the increasing usage of the Group's telecommunications services will not result in additional strain on the network switching capacity, or that the existing quality of the public switched telephone network will remain adequate.

In addition, the Group's operating revenues and costs are affected by the terms of its interconnection arrangement with China Telecom. Any material increase in costs associated with the interconnection could significantly and adversely affect the results of operations of the Group. There is no assurance that the terms of future interconnection arrangements will be commercially acceptable to the Group.

Adequate financing for future expansion

Substantial financing will be required by the Group to broaden the existing range of telecommunication services and develop new services. There is no assurance that sufficient financing will be available to the Group on acceptable terms. If adequate capital is not available, the business prospects of the Group will be adversely affected.

Credit risks

As of 31 December, 2000, cash and cash equivalents, short-term bank deposits and bank loans were mainly maintained with state-owned banks in the PRC and commercial banks in Hong Kong.

36. CONCENTRATION OF RISK (Cont'd)

Foreign Currency Risk

The Group has foreign currency risk as certain of its payables to equipment suppliers are denominated in foreign currencies, principally US dollars. Fluctuations of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

Interest Rate Risk

The interest rates and terms of repayment of bank loans and other loans of the Group are disclosed in Notes 27, 28 and 32(b).

37. 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, in deciding how to allocate resources and in assessing performance.

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

- Cellular Business — the provision of cellular GSM telephone and related services;
- Paging Business — the provision of paging and related services;
- Long distance, Data and Internet Business — the provision of domestic and international long distance telephony, data, Internet and other related services (operations mainly commenced in 2000).

The operating segments are managed separately because each operating segment represents a strategic business unit that serves different markets. 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 to these reportable segments.

As the major telecommunication services of the Group operate autonomously under separate management teams at separate locations, most of the assets, liabilities, revenues and expenses are clearly identifiable to business segments. Allocation of centrally incurred costs amongst the different segments is not significant.

The Group's primary measure of segment income is based on segment income or loss before income tax.

37. SEGMENT INFORMATION (Cont'd)

(a) Business segments

	Year ended 31 December,											
	2000						1999					
	Cellular Business RMB'000	Paging Business RMB'000	Long distance, Data and Internet Business RMB'000	Unallocated Amounts RMB'000	Elimination RMB'000	Total RMB'000	Cellular Business RMB'000	Paging Business RMB'000	Long distance Data and Internet Business RMB'000	Unallocated Amounts RMB'000	Elimination RMB'000	Total RMB'000
Revenues:												
Usage fee	8,212,332	—	470,526	—		8,682,858	3,188,850	—	79,159	—		3,268,009
Monthly fee	2,476,104	7,992,999	7,076	—		10,476,179	1,116,696	8,901,275	—	—		10,017,971
Connection fee	517,642	68,233	—	—		585,875	673,912	93,790	—	—		767,702
Interconnection revenue	753,591	—	293,745	—		1,047,336	207,978	—	—	—		207,978
Leased lines rental	—	—	321,255	—		321,255	—	—	—	—		—
Other revenues	228,135	422,258	3,792	—		654,185	126,813	51,846	—	—		178,659
Total service revenue	12,187,804	8,483,490	1,096,394	—		21,767,688	5,314,249	9,046,911	79,159	—		14,440,319
Sales of telecommunication products	696,058	1,228,712	—	—		1,924,770	526,858	2,482,830	—	—		3,009,688
Total revenue from external customers	12,883,862	9,712,202	1,096,394	—		23,692,458	5,841,107	11,529,741	79,159	—		17,450,007
Intersegment revenue	—	180,701	455,722	—	(636,423)	—	—	—	—	—		—
Total revenues	12,883,862	9,892,903	1,552,116	—		23,692,458	5,841,107	11,529,741	79,159	—		17,450,007
Operating expenses:												
Leased lines	(580,596)	(759,025)	(274,224)	—	455,722	(1,158,123)	(91,367)	(1,004,419)	(3,465)	—		(1,099,251)
Interconnection charges	(1,268,574)	—	(110,891)	—		(1,379,465)	(693,090)	—	—	—		(693,090)
Depreciation and amortisation	(3,605,529)	(1,827,535)	(300,887)	(364)		(5,734,315)	(1,892,060)	(1,798,046)	(913)	—		(3,691,019)
Personnel	(361,914)	(1,354,964)	(52,962)	—		(1,769,840)	(248,242)	(1,464,667)	(263)	—		(1,713,172)
Selling and marketing	(1,426,829)	(952,210)	(294,095)	—	180,701	(2,492,433)	(738,665)	(817,480)	(1,114)	—		(1,557,259)
General, administrative and others	(1,772,753)	(1,809,425)	(146,706)	(14,179)		(3,743,063)	(806,420)	(1,745,309)	(34,673)	—		(2,586,402)
Cost of telecommunication products sold	(380,849)	(1,812,089)	—	—		(2,192,938)	(420,042)	(2,873,942)	—	—		(3,293,984)
Total operating expenses	(9,397,044)	(8,515,248)	(1,179,765)	(14,543)		(18,470,177)	(4,889,886)	(9,703,863)	(40,428)	—		(14,634,177)
Operating income	3,486,818	1,377,655	372,351	(14,543)		5,222,281	951,221	1,825,878	38,731	—		2,815,830
Interest income	100,944	52,320	636	1,594,905		1,748,805	12,475	93,120	—	—		105,595
Interest expense	(1,149,432)	—	(204,314)	—		(1,353,746)	(808,764)	—	(42)	—		(808,806)
Loss arising from terminations of CCF arrangements	(1,184,534)	—	(9,304)	—		(1,193,838)	(224,270)	—	—	—		(224,270)
Other income (expenses), net	9,493	49,736	—	—		59,229	(2,541)	(126,709)	(93)	—		(129,343)
Income (loss) before taxation and minority interests	1,263,289	1,479,711	159,369	1,580,362		4,482,731	(71,879)	1,792,289	38,596	—		1,759,006
Taxation	(560,705)	(452,292)	(91,972)	—		(1,104,969)	(8,459)	(547,200)	—	—		(555,659)
Income (loss) before minority interests	702,584	1,027,419	67,397	1,580,362		3,377,762	(80,338)	1,245,089	38,596	—		1,203,347
Minority interests	—	(143,711)	—	—		(143,711)	—	(364,200)	—	—		(364,200)
Segment income (loss)	702,584	883,708	67,397	1,580,362		3,234,051	(80,338)	880,889	38,596	—		839,147
Other significant noncash expenses:												
Write off or provision for doubtful debts	355,082	85,430	4,319	—		444,831	193,232	93,434	—	—		286,666
Total segment assets	42,393,650	14,748,230	8,763,617	46,923,329		112,828,826	25,831,798	16,952,637	2,581,630	—		45,366,065
Total segment liabilities	41,207,608	5,482,298	7,963,449	67,817		54,721,172	25,430,873	7,017,705	1,848,859	—		34,297,437
Capital expenditures for segment assets	17,277,859	2,178,287	5,713,435	10,655		25,180,236	8,287,879	3,023,363	1,385,487	—		12,696,729

37. SEGMENT INFORMATION (Cont'd)

(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, intangible assets and other assets) are situated in the PRC, as the Group's principal activities are conducted in the PRC. For the year ended 31 December, 2000, substantially all capital expenditures were incurred to acquire assets located in the PRC. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.