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 investment holding, 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 telecommunications 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, fixed line local networks and fixed line 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 these 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 operated 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 interests 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");

1. ORGANISATION AND PRINCIPAL ACTIVITIES (Cont'd)

(ii) the nationwide domestic and international long distance telephony businesses 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").

By 31 December 2001, Guoxin has already acquired all of the minority interests of 28 subsidiaries and part of the minority interests of Heilongjiang Guoxin Paging Co. Ltd. ("Heilongjiang Guoxin") and Liaoning Guoxin Paging Co. Ltd. ("Liaoning Guoxin"). These 28 Paging Businesses then became the wholly-owned subsidiaries of Guoxin. In addition, Guoxin deregistered the legal entity status of 22 wholly-owned subsidiaries in 21 provinces and 1 municipality in the PRC. Minority interests only existed in Heilongjiang Guoxin, Liaoning Guoxin and Unicom Guomai Communications Co. Ltd. ("Unicom Guomai").

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

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). 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, both Unicom Group and Guoxin continued to be 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 continued to control the Company after the Restructuring. Accordingly, the series of combination of the various telecommunications 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.

2. BASIS OF PRESENTATION (Cont'd)

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

The financial statements are prepared under the historical cost convention, as modified by the revaluation of land use rights and buildings, and in accordance with Statements of Standard Accounting Practice ("HK SSAP") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"). This basis of accounting differs from that used in the preparation of the financial statements for PRC statutory reporting purposes, which were based on the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP").

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

- Reversal of revaluation surplus and related depreciation and amortisation charges arising from the revaluation of assets performed by independent valuers registered in the PRC;
- Additional accrual for retirement benefits;
- Additional provision for housing benefits;
- Additional capitalisation of interest expenses;
- Provision for deferred taxation; and
- Recognised loss arising from the terminations of 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 2001, which conform to HK GAAP, are as follows:

(a) Adoption of Statements of Standard Accounting Practice

For the year ended 31 December 2001, the Group adopted, for the first time, the following HK SSAP issued by the Hong Kong Society of Accountants:

SSAP9 (revised)	Events after the balance sheet date
SSAP14 (revised)	Leases
SSAP26	Segment reporting
SSAP28	Provisions, contingent liabilities and contingent assets
SSAP29	Intangible assets
SSAP30	Business combinations
SSAP31	Impairment of assets
SSAP32	Consolidated financial statements and accounting for investments in subsidiaries

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

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Company has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. In addition, the Company holds, either directly or indirectly, more than 50% of the issued share capital or controls more than half of the voting power or the composition of the Board of Directors of the subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority owners' interests are shown separately in the balance sheet and income statement, respectively.

All significant intercompany transactions and balances, and any unrealised gains arising from intercompany transactions, have been eliminated on consolidation.

(c) Use of estimates

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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Property, plant and equipment

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

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

Any increase in land use rights and buildings valuation is credited to the revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the income statement.

Upon the disposal of revalued land use rights and buildings, the realised portion of the revaluation reserve is transferred from the revaluation reserve to retained profits.

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.

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.

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

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

(e) **Construction-in-progress**

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

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

(f) **Goodwill**

Goodwill represents the excess of purchase consideration over the Group's interests in the fair values of the net identifiable assets and liabilities acquired as at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line method over the economic lives of the acquired businesses, estimated to be 5 to 7 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 discounted future net cash flows of the related business over its remaining life.

(g) **Deferred expenditures and amortisation**

Deferred expenditures mainly 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 5 years. Housing benefits are amortised using the straight-line method over the estimated service lives of the employees.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Investments in securities

Investment securities

Equity securities intended to be held on a continuing basis are classified as investment securities and recorded at cost less any provision for impairment 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 leading to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of investment securities, profit or loss thereon is accounted for in the income statement.

Trading securities

Trading securities represent government bonds and marketable securities held for dealing purposes and are included in the balance sheet at their fair values. Any changes in fair values of trading securities are recognised in the income statement when they arise.

Upon disposal of investment securities, any profit and loss is accounted for in the income statement.

(i) 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.

(j) 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.

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 thereafter 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.

(k) Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(l) 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.

(m) Accounts and other receivables

Accounts and other receivables are stated at their cost, after provision for doubtful debts.

(n) Inventories

Inventories, which principally comprise handsets, SIM cards, pagers and accessories, are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business 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. Write-downs to net realisable value and losses of inventories are recognised as an expense in the year the write-down or loss occurs.

(o) 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 telecommunications services (over a period of 3 to 12 months). Customer advances are stated at the amount of proceeds received less the amount already recognised as revenues upon the rendering of services.

(p) Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. Title may or may not eventually be transferred. The Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments or lease rental received under an operating lease are recognised as an expense or income on a straight-line basis over the lease term.

(r) Borrowing costs

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

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

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

The capitalised interest rate represents the cost of capital for raising the related borrowings externally and varies from 5.46% to 7.65% for the year ended 31 December 2001 (2000: 4.95% to 6.66%).

(s) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(t) Revenue recognition

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

(u) 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.

(v) 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.

(w) 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. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(x) Impairment of assets

Property, plant and equipment, goodwill, investment in associated companies and securities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for assets carried at cost or treated as a revaluation decrease for land use rights and buildings that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same assets. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future net cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

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

(y) 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.

(z) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(aa) Events after the balance sheet date

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

(ab) 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:

	Note	Year ended 31 December 2001 RMB'000	2000 RMB'000
Cellular Business			
Usage fee	(i) (a)	**14,937,448**	8,212,332
Monthly fee	(ii)	**3,660,473**	2,476,104
Connection fee	(iii)	**204,986**	517,642
Interconnection revenue	(iv)	**1,262,267**	753,591
Other revenue	(vi)	**439,884**	228,135
Total Cellular Business revenue		**20,505,058**	12,187,804
Paging Business			
Monthly fee	(ii)	**4,141,232**	7,992,999
Connection fee	(iii)	**1,595**	68,233
Other revenue	(vi)	**198,997**	422,258
Total Paging Business revenue		**4,341,824**	8,483,490
Long Distance, Data and Internet Business			
Usage fee	(i) (b)	**2,120,997**	470,526
Monthly fee	(ii)	**—**	7,076
Interconnection revenue	(iv)	**724,624**	293,745
Leased lines rental	(v)	**427,195**	321,255
Other revenue	(vi)	**36,128**	3,792
Total Long Distance, Data and Internet Business revenue		**3,308,944**	1,096,394
Total service revenue		**28,155,826**	21,767,688
Sales of telecommunications products		**1,237,060**	1,924,770
Total revenue		**29,392,886**	23,692,458

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 cellular subscribers to the Group's cellular 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 revenue from the provision of value-added services to subscribers and commission revenue for providing agency services to sell telecommunications products for Unicom Group.

5. FINANCIAL INCOME

Financial income for the year ended 31 December 2001 mainly represents interest income arising from the proceeds of the Global Offering amounting to RMB2,096,972,000 (2000 : RMB1,748,805,000).

6. INCOME BEFORE TAXATION AND MINORITY INTERESTS

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

	Note	Year ended 31 December 2001 RMB'000	2000 RMB'000
After crediting/(charging):			
Interest income	5	**2,096,972**	1,748,805
Gains (losses) from exchange difference	8	**14,476**	(30,881)
Share of (losses) profits from associated companies	8	**(24,773)**	258
Dividends from investment securities		**22,864**	9,321
Realised gains on investment securities		**944**	—
Realised gains on trading securities	8	**31,979**	64,956
Unrealised (losses) gains on trading securities	8	**(56,576)**	31,855
After charging/(crediting):			
Financial expense:			
Interest on bank loans repayable within five years		**2,593,402**	1,558,090
Interest on loans from Unicom Group repayable within five years		**—**	48,313
Less: amounts capitalised in construction-in-progress		**(686,254)**	(252,657)
Total interest expense		**1,907,148**	1,353,746
Bank charges		**10,418**	—
Total financial expense		**1,917,566**	1,353,746
Depreciation and amortisation			
- Assets held under finance leases		**9,327**	—
- Other assets		**8,252,969**	5,734,315
Total depreciation and amortisation		**8,262,296**	5,734,315
Operating lease expenses	7(iv)	**569,954**	546,165
Loss on disposal of property, plant and equipment	7(iv), 20	**54,475**	277,973
Auditors' remuneration		**52,972**	47,030
Provision (write-back) for doubtful debts			
- Cellular Business		**517,663**	355,082
- Paging Business		**(14,510)**	85,430
- Long Distance, Data and Internet Business		**37,801**	4,319
Total provision for doubtful debts	7(iv)	**540,954**	444,831

6. INCOME BEFORE TAXATION AND MINORITY INTERESTS (Cont'd)

	Note	Year ended 31 December 2001 RMB'000	2000 RMB'000
After crediting (charging)			
Personnel:			
- Salaries and wages		**2,156,911**	1,573,147
- Contributions to defined contribution pension schemes	12	**163,500**	148,322
- Special monetary housing benefits	13	**88,911**	—
- Contributions to housing fund	13	**69,963**	44,333
- Other housing benefits	13	**7,933**	4,038
Total personnel	7(iii)	**2,487,218**	1,769,840
Provision for impairment in value of:			
- Property, plant, and equipment	20	**468,611**	—
- Goodwill	21	**163,900**	—
Total provisions for impairment	7(iv)	**632,511**	—
(Write-back) provision for impairment in value of investments in:			
- Associated companies		**(3,219)**	7,501
- Investment securities		**(12,490)**	6,812
Total provisions for impairment in value of investments		**(15,709)**	14,313

7. OPERATING EXPENSES

The nature of the major components of operating expenses is 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.

7. OPERATING EXPENSES (Cont'd)

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

	Year ended 31 December	
	2001	2000
	RMB'000	RMB'000
Operating lease expenses	569,954	546,165
Repair and maintenance expenses	424,614	635,197
Provision for doubtful debts	540,954	444,831
Loss on disposal of property, plant and equipment	54,475	277,973
Provisions for impairment in value of property, plant and equipment and goodwill	632,511	—
Travelling, entertainment and meeting expenses	612,592	389,335
Power and water charges	473,774	229,308
Office expenses	587,727	385,980
Other	1,602,396	834,274
	5,498,997	3,743,063

8. OTHER INCOME, NET

	Year ended 31 December	
	2001	2000
	RMB'000	RMB'000
Realised gains on trading securities	31,979	64,956
Unrealised (losses) gains on trading securities	(56,576)	31,855
Share of (losses) profits from associated companies	(24,773)	258
Gains (losses) from exchange difference	14,476	(30,881)
Other	54,725	(6,959)
	19,831	59,229

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

(a) Details of directors' emoluments pursuant to Section 161 of the Companies Ordinance are set out below:

	Year ended 31 December	
	2001	2000
	RMB'000	RMB'000
Non-executive directors:		
Fees	1,273	—
Executive directors:		
Fees	—	—
Other emoluments		
- Salaries, allowance and other allowances	9,083	2,825
- Pension benefits/pension scheme contributions	124	52
- Bonuses paid and payable	11,162	222
	20,369	3,099
	21,642	3,099

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

	Year ended 31 December	
(All amounts expressed in Hong Kong dollars)	2001	2000
Up to $1,000,000	4	5
$2,500,001 - $3,000,000	2	—
$3,500,001 - $4,000,000	1	—
$4,000,001 - $4,500,000	1	—
$4,500,001 - $5,500,000	1	—
	9	5

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

(b) Details of five highest paid individuals:

	Year ended 31 December	
	2001	2000
	RMB'000	RMB'000
Salaries, allowance and other allowances	9,083	2,825
Pension benefits/pension scheme contributions	124	52
Bonuses paid and payable	11,162	222
	20,369	3,099

Of the five highest paid individuals of the Group, all (2000: all) are directors of the Company whose emoluments are included above.

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

10. TAXATION

Provision for taxation represents:

	Year ended 31 December 2001 RMB'000	2000 RMB'000
PRC enterprise income tax	**1,608,825**	1,619,169
Deferred taxation	**(567,688)**	(514,200)
	1,041,137	1,104,969

There is no Hong Kong profits tax liabilities as the Group does not have any assessable income sourced from Hong Kong for the years ended 31 December 2001 and 2000.

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%. On the other hand, most of Guoxin's subsidiaries were individually subject to enterprise income tax at the rate of 33% and certain subsidiaries were granted by tax authorities a reduced income tax rate of 15%.

For 2001, China Unicom has obtained new tax approval and the income tax liability was assessed as follows:

(a) China Unicom was approved as foreign investment enterprise ("FIE") and the tax liability for the year of 2001 was assessed in accordance with FIE taxation requirement.

(b) China Unicom was assessed for income tax liability on a consolidated basis as a single entity and settled income tax liabilities centrally with the Beijing tax authority.

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

10. TAXATION (Cont'd)

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	
	2001	2000
PRC		
Statutory tax rate of 33%	**33.0%**	33.0%
Non-deductible expenses:		
- Housing benefits	**2.2**	—
- Personnel expenses	**0.7**	2.0
- Selling and marketing expenses	**—**	2.9
- Other	**1.2**	0.5
Non-taxable income:		
- Connection fees	**—**	(2.6)
Effect of tax holiday	**(2.7)**	(1.3)
Non-recognition of deferred taxes:		
- Provision for doubtful debts of Cellular Business	**4.6**	3.8
Additional depreciation deductible for tax purpose from 2001	**(9.8)**	—
Other	**—**	(0.2)
Effective PRC income tax rate	**29.2%**	38.1%
Hong Kong		
Statutory tax rate of 16%	**16.0%**	16.0%
Non-taxable income:		
- Interest income	**(16.0)**	(16.0)
Effective HK income tax rate	**—**	—
Total overall effective income tax rate	**19.1%**	24.7%

Tax effect of tax holiday is as follows:

	Year ended 31 December	
	2001	2000
Aggregate amount (RMB in millions)	**83.6**	37.9
Per share effect (RMB)	**0.007**	0.003

10. TAXATION (Cont'd)

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

	Consolidated	
	As of 31 December	
	2001	2000
	RMB'000	RMB'000
Deferred tax assets:		
Interest on loans from CCF joint ventures	**317,447**	439,479
Loss arising from terminations of CCF Arrangements	**348,082**	298,331
Income tax on advances from customers for telephone cards	**529,049**	189,915
Operating loss of the Cellular Business	**—**	14,709
Difference in goodwill amortisation period	**23,590**	18,284
Provision for impairment in value for property, plant and equipment	**154,642**	—
Provision for impairment in value for goodwill	**54,087**	—
Provision for doubtful debts of Paging Business and Long Distance, Data and Internet Business	**53,223**	46,450
Write-off of deferred expenditures	**24,368**	136,848
Write-down of inventory to net realisable value	**35,819**	21,856
Amortisation of retirement benefits	**39,852**	41,241
Additional depreciation deductible for tax purpose from 2001	**232,291**	—
Other	**20,590**	86,120
	1,833,040	1,293,233
Deferred tax liabilities:		
Accelerated depreciation for tax purpose	**(129,526)**	(239,143)
Other	**(122,106)**	(40,370)
	(251,632)	(279,513)
Net deferred tax assets	**1,581,408**	1,013,720
Less: Current portion of deferred tax assets	**(569,192)**	(19,642)
	1,012,216	994,078

Deferred tax assets not recognised consist of the following:

	Consolidated	
	As of 31 December	
	2001	2000
	RMB'000	RMB'000
Tax effect of provision for doubtful debts of Cellular Business	**373,159**	228,061
Tax effect of operating loss of a subsidiary	**107,299**	107,299

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 telecommunications 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%. As all CCF Arrangements were terminated in early 2000, no further interest was accrued during that year.

The periodic cash distribution to the CJVs in excess of the accrued interest payable was 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 were 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 were terminated in 2000 (as further discussed below).

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. 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, and the total cash compensation amounts of approximately RMB7,457 million for 2000 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 were restructured into long-term loans borrowed directly by China Unicom in 2000 (see Note 33(b)).

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

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 allowed 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 was fixed, amounting to approximately RMB5,024 million in aggregate. The exercise period lasted for six months following the date that was six months after the Global Offering, 22 June 2000. As of 31 December 2001, all share warrants expired and no share warrants were exercised by these CJVs or their designees.

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 was required to make contributions to the state-sponsored pension scheme at the rate of 19% for 2001 (2000: 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 has been 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.

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 past 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 were 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	
	2001	2000
	RMB'000	RMB'000
Contributions to defined contribution pension schemes	**163,500**	148,322

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 2001 (2000: RMB18.5 million).

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

In addition, all of the full time employees of the Group are entitled to participate in a state-sponsored housing fund. The fund can be used for the construction of living quarters or may be withdrawn upon the retirement of the employees. The Group is required to make annual contributions to the housing fund at a rate from 5% to 10% (2000: 5%) of the employees' basic salaries.

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.

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

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

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

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

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

13. HOUSING BENEFITS (Cont'd)

For the year ended 31 December 2001, only certain provinces achieved the annual performance budget and were thus approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the year ended 31 December 2001 amounted to approximately RMB88,911,000 representing their first 40% entitlements. The remaining provinces were not entitled to the special monetary housing benefits in 2001 since they did not achieve their annual performance budget in 2001 and accordingly, no provision for such benefits was made.

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

	Year ended 31 December	
	2001	2000
	RMB'000	RMB'000
Special monetary housing benefits	88,911	—
Contributions to housing fund	69,963	44,333
Other housing benefits	7,933	4,038
	166,807	48,371

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 Articles 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 income after tax determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval 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 appropriation to the staff bonus and welfare fund will be charged to the income statement as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended 31 December 2000 and 2001, no appropriation to staff bonus and welfare fund was made.

14. DISTRIBUTION OF INCOME (Cont'd)

According to the Board of Directors'meeting dated on 17 March 2002, China Unicom appropriated approximately RMB224,628,000 to the statutory reserve (2000: RMB424,805,000).

For the year ended 31 December 2001, income attributable to shareholders included a profit of approximately RMB1,981,843,000 (2000: RMB1,584,848,000) which has been dealt with in the accounts of the Company. As of 31 December 2001, the amount of distributable reserves of the Company amounted to approximately RMB3,566,691,000 (2000: RMB1,584,848,000).

The Board of Directors of the Company does not recommend the payment of any dividends to the shareholders for the year ended 31 December 2001.

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 2000 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year, assuming the Company had been in existence since 1 January 2000.

Basic net income per share for the year ended 31 December 2001 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year.

Diluted net income per share for the year ended 31 December 2000 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arose from share options granted to the directors or senior management under the Pre-Global Offering Share Option Scheme and share warrants as described in Note 11 and the over-allotment option granted to the underwriters, which if converted to ordinary shares would decrease profit attributable to the shareholders per share.

For the year ended 31 December 2001, all potential dilutive shares arose from share options granted under (i) the Pre-Global Offering Share Option Scheme in 2000 and (ii) the Share Option Scheme in 2001. There was no dilution of net income per share for the current year after taking into account the dilutive effect of the share options. In 2001, anti-dilutive shares arising from the share options of approximately 30,451,000 shares (2000: Nil) were not included in the calculation of diluted 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.

15. NET INCOME PER SHARE (Cont'd)

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

	Year ended 31 December					
	2001			2000		
	Net income RMB'000	Shares '000	Per share amount RMB	Net income RMB'000	Shares '000	Per share amount RMB
Basic net income	**4,456,761**	**12,552,996**	**0.36**	3,234,051	11,208,224	0.29
Effect of conversion of share options and share warrants	**—**	**—**	**—**	—	11,455	—
Diluted net income	**4,456,761**	**12,552,996**	**0.36**	3,234,051	11,219,679	0.29

16. TRADING SECURITIES

As of 31 December 2001, all trading securities represented listed equity securities in the PRC, which were stated at their market values. The realised gains on trading securities for the year ended 31 December 2001 amounted to approximately RMB31,979,000 (2000: RMB64,956,000) and the unrealised losses amounted to RMB56,576,000 (2000: unrealised gain of RMB31,855,000). 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	
	2001	2000
	RMB'000	RMB'000
Accounts receivable for Cellular Business	2,787,993	1,890,338
Accounts receivable for Paging Business	130,172	109,813
Accounts receivable for Long Distance, Data and Internet Business	585,835	216,794
Sub-total	3,504,000	2,216,945
Less: Provision for doubtful debts for Cellular Business	(931,687)	(620,935)
Provision for doubtful debts for Paging Business	(32,131)	(46,641)
Provision for doubtful debts for Long Distance, Data and Internet Business	(42,119)	(4,318)
	2,498,063	1,545,051

The aging analysis of accounts receivable was as follows:

	Consolidated As of 31 December	
	2001	2000
	RMB'000	RMB'000
Less than six months	2,939,485	1,970,206
Six months to one year	314,028	246,739
More than one year	250,487	—
	3,504,000	2,216,945

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

Provision for doubtful debts was analysed as follows:

	Consolidated As of 31 December	
	2001	2000
	RMB'000	RMB'000
Balance, beginning of year	671,894	407,261
Provision for the year	540,954	444,831
Written-off for the year	(206,911)	(180,198)
Balance, end of year	1,005,937	671,894

18. INVENTORIES

	Consolidated	
	As of 31 December	
	2001	2000
	RMB'000	RMB'000
Handsets and telephone cards	**559,553**	219,201
Pagers	**116,847**	371,967
Other	**75,591**	88,521
	751,991	679,689

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	Consolidated		The Company	
	As of 31 December		As of 31 December	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits and prepayments	**620,419**	797,192	**3,168**	—
Interest receivable	**167,004**	665,657	**167,004**	665,657
Advances to employees	**58,069**	31,663	**—**	—
Other	**124,069**	171,149	**—**	3,796
	969,561	1,665,661	**170,172**	669,453

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

	Consolidated		The Company	
	As of 31 December		As of 31 December	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	**906,225**	1,665,661	**170,172**	669,453
Over one year	**63,336**	—	**—**	—
	969,561	1,665,661	**170,172**	669,453

20. PROPERTY, PLANT AND EQUIPMENT, NET

	Consolidated						
	2001						2000
	Land use rights 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	4,043,384	45,335,956	1,994,544	619,957	13,136,373	65,130,214	40,320,423
Revaluations	—	—	—	—	—	—	148,853
Additions	163,013	203,395	118,954	58,920	30,719,850	31,264,132	25,331,490
Transfer from CIP	2,051,683	24,142,889	550,855	—	(26,745,427)	—	—
Disposals	(53,348)	(189,910)	(36,166)	(40,652)	—	(320,076)	(670,552)
End of year	6,204,732	69,492,330	2,628,187	638,225	17,110,796	96,074,270	65,130,214
Representing:							
At cost	3,501,652	69,492,330	2,628,187	638,225	17,110,796	93,371,190	62,427,134
At valuation	2,703,080	—	—	—	—	2,703,080	2,703,080
	6,204,732	69,492,330	2,628,187	638,225	17,110,796	96,074,270	65,130,214
Accumulated depreciation and impairment losses:							
Beginning of year	392,358	11,092,757	576,571	204,891	—	12,266,577	7,093,815
Revaluations	—	—	—	—	—	—	12,610
Charge for the year	224,876	6,995,931	410,164	93,585	—	7,724,556	5,511,045
Impairment losses	—	449,266	—	—	19,345	468,611	—
Disposals	(8,148)	(60,955)	(24,154)	(40,652)	—	(133,909)	(350,893)
End of year	609,086	18,476,999	962,581	257,824	19,345	20,325,835	12,266,577
Net book value:							
End of year	5,595,646	51,015,331	1,665,606	380,401	17,091,451	75,748,435	52,863,637
Beginning of year	3,651,026	34,243,199	1,417,973	415,066	13,136,373	52,863,637	33,226,608

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

	The Company			
	2001			2000
	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
Cost:				
Beginning of year	5,255	5,400	10,655	—
Additions	1,940	252	2,192	10,655
End of year	7,195	5,652	12,847	10,655
Accumulated depreciation:				
Beginning of year	190	174	364	—
Charge for the year	1,493	2,142	3,635	364
End of year	1,683	2,316	3,999	364
Net book value:				
End of year	5,512	3,336	8,848	10,291
Beginning of year	5,065	5,226	10,291	—

As of 31 December 2001, approximately RMB6,742 million (2000: RMB6,993 million) of property, plant and equipment at cost was pledged to banks as loan security.

As of 31 December 2001, prepayments for property, plant and equipment to be used in construction amounting to RMB2,272 million (2000: RMB1,376 million) have been included in construction-in-progress.

For the year ended 31 December 2001, interest of approximately RMB686 million (2000: RMB253 million) was capitalised to construction-in-progress.

As of 31 December 2001, the cost or valuation of land use rights (located in the PRC) and the related accumulated depreciation amounted to approximately RMB315 million and RMB60 million respectively (2000: RMB241 million and RMB34 million).

Land use rights and buildings of the Group as of 31 March 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to RMB8.8 million for the year ended 31 December 2001 (2000: RMB12.6 million). The revaluation deficit was charged to the income statement for the year ended 31 December 2000.

As of 31 December 2001, the amount of land use rights and buildings which were revalued as of 31 March 2000 would have been included in the financial statements had the assets been carried at cost less accumulated depreciation was approximately RMB2,139 million (2000: RMB2,267 million).

As of 31 December 2001, net book value of telecommunications equipment held under finance leases amounted to approximately RMB178,622,000.

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

In 2001, the economic performance of Paging Business was worse than originally expected. Updated analyses and forecasts were prepared by the Group to determine if there had been an impairment of assets. The test for impairment was conducted for the paging telecommunciations business of each province, representing a cash-generating unit, after considering the significant decline in revenue and profitability in 2001. The impaired assets, including telecommunications equipment and the related goodwill of certain provinces were written down to their recoverable values determined based on their value in use. Value in use is determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the paging assets. In estimating the future net cash flows, the Group has made key assumptions and estimates on the appropriate discount rate adopted (8% per annum) and the period covered by the cash flow forecast, the gradual slow-down in the future loss of customers, the expected stability in average revenue per subscriber, the effects of incremental cash flows arising from new paging businesses and the adoption of cost reduction plans. These assumptions and estimation are made after considering the historical trends, the current market trends and the physical condition of the related assets. Based on the above, the Group recorded impairment losses for property, plant and equipment amounting to approximately RMB468 million and for goodwill amounting to approximately RMB164 million for the year ended 31 December 2001.

In 2001, the Group also recognised loss on disposal of property, plant and equipment of approximately RMB54 million (2000: RMB278 million).

21. GOODWILL

	Consolidated As of 31 December	
	2001 RMB'000	2000 RMB'000
Cost	**505,485**	519,999
Less: Accumulated amortisation	**(298,298)**	(224,037)
Less: Impairment losses	**(163,900)**	—
	43,287	295,962

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 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.

21. GOODWILL (Cont'd)

In 2001, Guoxin acquired the minority interests of 3.71% and 0.85% in Heilongjiang Guoxin and Sichuan Guoxin Telecommunications Co. Ltd. ("Sichuan Guoxin"), respectively. The total purchase consideration amounted to approximately RMB19.4 million. The minority owners' aggregate share of the fair value of net assets as of the effective dates of acquisition were approximately RMB18.9 million and goodwill arising from the acquisition of minority interests was immaterial.

The amortisation charge of goodwill for the year ended 31 December 2001 amounted to approximately RMB74,261,000 (2000: RMB100,781,000).

The impairment provision in 2001 represented the write-down of goodwill relating to the Paging Businesses in certain provinces (See note 20).

22. DEFERRED EXPENDITURES

	Consolidated As of 31 December	
	2001	2000
	RMB'000	RMB'000
Interconnection facilities	**464,575**	477,367
Long-term prepaid rental	**599,424**	374,566
Other	**701,468**	240,486
	1,765,467	1,092,419
Less: Accumulated amortisation	**(750,029)**	(286,550)
	1,015,438	805,869

Amortisation of deferred expenditures for the year ended 31 December 2001 amounted to approximately RMB463,479,000 (2000: RMB109,879,000).

23. INVESTMENT SECURITIES

	Consolidated As of 31 December 2001 RMB'000	2000 RMB'000
Unlisted equity securities in the PRC, at cost	131,212	109,147
Less: Provision for impairment in value	(7,712)	(20,202)
	123,500	88,945

24. INVESTMENTS IN SUBSIDIARIES

	The Company As of 31 December 2001 RMB'000	2000 RMB'000
Unlisted equity investments , at cost	23,190,368	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 whose shares are listed on the Shanghai Stock Exchange.

24. INVESTMENTS IN SUBSIDIARIES (Cont'd)

As of 31 December 2001, 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
Anhui 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
Guangdong Guoxin Telecommunications Co., Ltd.	The PRC, 30 September 1998	—	100.00%	1,473,802	Paging operation
Heilongjiang Guoxin Paging Co., Ltd. ("Heilongjiang Guoxin")	The PRC, 10 November 1998	—	95.10%	349,828	Paging operation
Liaoning Guoxin Paging Co., Ltd. ("Liaoning Guoxin")	The PRC, 11 November 1998	—	70.85%	372,000	Paging operation
Sichuan Guoxin Telecommunications Co., Ltd. ("Sichuan Guoxin")	The PRC, 30 September 1998	—	100.00%	386,628	Paging operation
Yunnan Guoxin Telecommunications Co., Ltd.	The PRC, 28 September 1998	—	100.00%	159,139	Paging operation
Unicom Guomai Communications Co., Ltd. ("Unicom Guomai")	The PRC, 24 November 1992	—	58.88%	364,883	Pagingoperation

24. INVESTMENTS IN SUBSIDIARIES (Cont'd)

As of 31 December 2001, Guoxin has already acquired all of the minority interests of 28 subsidiaries and part of the minority interests of Heilongjiang Guoxin and Liaoning Guoxin. Except for Heilongjiang Guoxin, Liaoning Guoxin and Unicom Guomai, the aforementioned 28 Paging Businesses have become wholly-owned subsidiaries of Guoxin. The legal status of 22 of these subsidiaries has been subsequently deregistered during 2001.

In 2001, the Company has contributed cash of RMB14,647,535,000 to China Unicom as additional investment.

25. INVESTMENT IN ASSOCIATED COMPANIES

	Consolidated As of 31 December	
	2001 RMB'000	2000 RMB'000
Cost	**51,145**	51,145
Share of net assets	**(23,940)**	833
	27,205	51,978
Less: Provision for impairment in value	**(23,059)**	(26,278)
	4,146	25,700

Full provision for impairment loss in respect of investments in certain associated companies was made in both 2000 and 2001 when the Group judged that the recoverable amount of these investments would be minimal based on the estimated discounted future net cash flows of the investment. In view of the persistent poor operating results of these associated companies, the Group concluded that the impairments were other than temporary.

25. INVESTMENT IN ASSOCIATED COMPANIES (Cont'd)

As of 31 December 2001, details of investment in associated companies were as follows:

Name	Place and date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB'000	Principal activities
Beijing Zhongjie Mobile Telecommunications Co., Ltd.	The PRC, 5 April 1999	—	33.00%	10,000	Telecommunications technology
Jiangxi Guoxin Technology Co., Ltd.	The PRC, 27 May 1999	—	23.80%	583	Telecommunications technology
Jiangxi Telecommunication Co., Ltd.	The PRC, 28 December 1993	—	24.00%	7,750	Telecommunications technology
Shanghai Bilder Telecommunications and Construction Co., Ltd.	The PRC, 17 April 1997	—	40.00%	20,000	Telecommunications technology
Shenzhen Jiaxun Co., Ltd.	The PRC, 12 January 2000	—	45.00%	10,000	Telecommunications technology
Shanghai Tianhua Communications Co., Ltd.	The PRC, 16 October 1997	—	40.00%	5,000	Telecommunications technology
Shanghai Guomai Communications and Technology Development Co., Ltd.	The PRC, 10 August 1998	—	49.00%	1,000	Telecommunications technology
Shanghai Beiyan Labor Service Co., Ltd.	The PRC, 12 January 1999	—	48.00%	500	Telecommunications technology
Suzhou Huihong Precision Metal Co., Ltd.	The PRC, 25 January 1994	—	22.50%	13,245	Telecommunications technology
Chengdu Tongfa Champin Communications Co., Ltd.	The PRC, 23 April 1993	—	40.00%	41,590	Telecommunications technology
Sichuan Sutong Expressway Communications Co., Ltd.	The PRC, 8 July 1997	—	30.00%	36,667	Telecommunications technology

26. PAYABLES AND ACCRUED LIABILITIES

		Consolidated		The Company	
		As of 31 December			
	Note	2001	2000	2001	2000
		RMB'000	RMB'000	RMB'000	RMB'000
Payables to contractors and equipment suppliers		**13,141,029**	10,539,987	**—**	—
Accrued expenses		**717,827**	745,043	**31,089**	7,848
Payables to telecommunications products suppliers		**124,928**	65,270	**—**	—
Other	(i)	**1,345,652**	1,170,867	**—**	—
		15,329,436	12,521,167	**31,089**	7,848

Note:

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

As of 31 December 2001, approximately RMB67 million (2000: RMB231 million) of payables to contractors and equipment suppliers was denominated in US dollars (i.e. US$8 million (2000: US$28 million)).

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

	Consolidated		The Company	
	As of 31 December		As of 31 December	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	**13,916,953**	12,521,167	**31,089**	7,848
Over one year	**1,412,483**	—	**—**	—
	15,329,436	12,521,167	**31,089**	7,848

27. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.19% to 7.72% per annum for 2001 (2000: 4.52% to 7.72% per annum).

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

	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 2000					
- secured	377,000				
- unsecured	7,356,817				
	7,733,817	5.80%	7,733,817	4,711,191	5.62%
31 December 2001					
- secured	—				
- unsecured	7,089,000				
	7,089,000	5.80%	10,816,951	7,411,409	5.80%

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

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

As of 31 December 2001, short-term bank loans of approximately RMB200 million (2000: Nil) were guaranteed by Unicom Group.

28. LONG-TERM BANK LOANS

		Consolidated As of 31 December	
	Interest rate and final maturity	2001 RMB'000	2000 RMB'000
Renminbi denominated bank loans	Fixed interest rate ranging from 5.46% to 7.65% per annum with maturity through 2007		
- secured		**17,247,009**	13,383,940
- unsecured		**19,933,362**	14,534,284
		37,180,371	27,918,224
Less: Current portion		**(843,603)**	(766,875)
		36,336,768	27,151,349

The repayment schedule of the long-term bank loans as of 31 December 2001 was as follows:

	RMB'000
Balances due:	
2002	843,603
2003	9,339,561
2004	4,600,135
2005	16,336,839
2006	4,276,763
Thereafter	1,783,470
	37,180,371
Less: Portion classified as current liabilities	(843,603)
	36,336,768

As of 31 December 2001, long-term bank loans were secured by the following:

(i) approximately RMB6,098 million (2000: RMB1,481 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches and RMB850 million of which was also guaranteed by Unicom Group;

(ii) approximately RMB1,149 million (2000: RMB1,903 million) of long-term bank loans were secured by the revenue streams and the related property, plant and equipment of the Liaoning GSM and Phases 4 and 5 of the Beijing GSM;

(iii) approximately RMB10,000 million (2000: RMB10,000 million) of long-term bank loans were secured by cash inflows generated from the operations.

(iv) approximately RMB3,403 million (2000 : Nil) of long-term bank loans were guaranteed by Unicom Group.

29. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

	Consolidated As of 31 December 2001 RMB'000	Consolidated As of 31 December 2000 RMB'000
Total minimum lease payments under finance leases repayable:		
- not later than one year	8,642	—
- later than one year and not later than five years	34,569	—
- later than five years	163,127	—
	206,338	—
Less: future finance charges	(97,430)	—
Present value of minimum obligations	108,908	—
Representing obligations under finance leases:		
- current liabilities	8,151	—
- non-current liabilities	100,757	—

	Consolidated As of 31 December 2001 RMB'000	Consolidated As of 31 December 2000 RMB'000
The present value of obligations under finance leases:		
- not later than one year	8,151	—
- later than one year and not later than five years	28,224	—
- later than five years	72,533	—
	108,908	—
Less: Amount due within one year included in current liabilities	(8,151)	—
	100,757	—

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

30. SHARE CAPITAL

	As of 31 December 2001 RMB'000	As of 31 December 2000 RMB'000
Authorised:		
30,000,000,000 ordinary shares of HK$ 0.1 each	**3,000,000**	3,000,000

	As of 31 December 2001			As of 31 December 2000		
	Number of shares ('000)	HK$'000	RMB equivalent RMB'000	Number of shares ('000)	HK$'000	RMB equivalent RMB'000
Issued and fully paid:						
Unicom BVI	**9,725,000**	**972,500**	**1,030,850**	9,725,000	972,500	1,030,850
Public investors	**2,827,996**	**282,799**	**300,521**	2,827,996	282,799	300,521
	12,552,996	**1,255,299**	**1,331,371**	12,552,996	1,255,299	1,331,371

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 each) on the New York Stock Exchange Inc., on 22 June 2000 and 21 June 2000 respectively; and

(ii) issued 368,869,050 shares 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.

31. SHARE OPTION SCHEME

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

(i) the nominal value of a share; and

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

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

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

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

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 the date of grant.

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

32. 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). As of 31 December 2001, all share warrants were expired and no share warrants were exercised by these CJVs or their designees.

33. 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.

	Note	Year ended 31 December 2001 RMB'000	2000 RMB'000
Transactions with Unicom Group:			
Interconnection and roaming revenues	(i), (iii)	**875,305**	339,536
Interconnection and roaming charges	(ii), (iii)	**298,828**	131,315
Rental charges for premises, equipment and facilities	(iv)	**21,257**	24,121
Revenue for leasing of transmission line capacity	(v)	**216,113**	168,556
Commission revenue for sales agency services	(vi)	**14,560**	259,981
Transactions with subsidiaries of Unicom Group:			
Leasing of satellite transmission capacity	(vii)	**61,778**	62,394
Purchase of telecom cards	(viii)	**1,255,533**	476,827
Commission expenses for sales agency services incurred for telecom cards	(ix)	**2,616**	5,033
Rental charges for leasing of transmission line	(x)	**16,882**	—
Agency fee incurred for procurement of telecommunications equipment	(xi)	**124,451**	54,421
Rental charge for the PRC corporate office	(xii)	**10,131**	10,131

Note:

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

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

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

(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 depreciation costs of the related premises, equipment and facilities. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement with Unicom Group to lease premises, equipment and facilities from Unicom Group. Rentals are based on the lower of depreciation costs and market rates.

(v) Following the Restructuring, Unicom Group leases transmission line capacity from the Group in accordance with the relevant provision of the service 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) For 2001 and 2000, Guoxin acted as the sales agent of Unicom Group to sell telecommunications 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) For 2001 and 2000, Unicom International (HK) Limited a subsidiary of Unicom Group, provided sales agency services such as selling of telecommunications cards to the Group. The commission expenses are charged based on market rates.

(x) In 2001, the Group leased transmission line capacity from Unicom International (HK) Limited and China Unicom International Limited, both are subsidiaries of Unicom Group, in accordance with the relevant provision of the service agreement. Leased line expenses are charged based on market rates.

(xi) Prior to the establishment of China Unicom, the Group purchased certain foreign and domestic telecommunications 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.

33. RELATED PARTY TRANSACTIONS (Cont'd)

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

(xii) 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.

(xiii) 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 are 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.

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

(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 7.2% for 2000. 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. For the year ended 31 December 2000, interest on loans from Unicom Group amounted to approximately RMB48,313,000. Upon the establishment of China Unicom in 2000, these loans were restructured into long-term loans borrowed directly by China Unicom.

(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) Leasing of CDMA network capacity

On 22 November 2001, China Unicom entered into a conditional lease agreement (the "Lease Agreement") with Unicom Group and Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon"), which is a subsidiary of Unicom Group. Pursuant to this Lease Agreement, Unicom Group and Unicom New Horizon agreed to lease the capacity of CDMA network being constructed by Unicom Group to China Unicom covering the 9 provinces of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei and the 3 municipalities of Beijing, Shanghai and Tianjin.

Commencement of the Lease Agreement is conditional upon, among others, the following conditions having been fulfilled:

- Satisfactory testing, initial acceptance and delivery of Phase 1 of the CDMA network in accordance with the Lease Agreement;

- Unicom Group providing or procuring that China Unicom is provided with all spectrum and number resources required by China Unicom for the operation of Phase 1 of the CDMA network;

(d) Leasing of CDMA network capacity (Cont'd)

- Unicom Group and Unicom New Horizon having obtained all necessary government approvals to perform their respective obligations under the Lease Agreement;
- China Unicom having obtained approval from the MII to operate the CDMA network;
- The MII having approved the CDMA tariff plan;
- The passing of resolutions by the independent shareholders approving the Lease Agreement and the related connected transactions; and
- The Hong Kong Stock Exchange granting to the Company a waiver from strict compliance with the provisions of the Listing Rules relating to the Lease Agreement and the related connected transactions.

The term of the Lease Agreement is for an initial period of one year (the "Initial Lease Term"), commencing from the second business day following the fulfillment of the above conditions, among others, as set out in the Lease Agreement, or 1 January 2002, whichever is later.

Other major terms of the Lease Agreement include the following:

(i) China Unicom has the exclusive right to lease and operate the CDMA network capacity in the aforementioned provinces/municipals from Unicom New Horizon;

(ii) The lease period is renewable for further one year terms at the option of China Unicom ("Additional Lease Term");

(iii) The lease fee will be calculated so as to enable Unicom New Horizon to recover its investment in constructing the CDMA network within 7 years, together with an internal rate of return of 8%;

(iv) China Unicom may not reduce the amount of capacity leased or committed to be leased by it during the Initial Lease Term. However, subject to providing not less than 180 days' prior written notice to or with the prior written consent of Unicom New Horizon, China Unicom may reduce the amount of capacity leased for any Additional Lease Term, provided that China Unicom must lease all capacity which it has requested or otherwise committed to lease for at least one year following the date of delivery or renewal of the lease of such capacity;

(v) China Unicom has the option to purchase the CDMA network (the "Purchase Option"), which may be exercised at any time during the Initial Lease Term or any Additional Lease Term of the lease and within 1 year thereafter;

33. RELATED PARTY TRANSACTIONS (Cont'd)

(d) Leasing of CDMA network capacity (Cont'd)

(vi) The acquisition price under the Purchase Option shall be negotiated between Unicom New Horizon and China Unicom, based on the appraised value of the CDMA network determined in accordance with PRC laws and regulations and taking into account prevailing market conditions and other factors, provided that it will not exceed such price as would, added together with the lease fee payments made by China Unicom to Unicom New Horizon, enable Unicom New Horizon to recover its investment in the CDMA network, together with an internal rate of return on its investment of 8%;

(vii) China Unicom may terminate the lease by not less than 180 days' prior written notice, with effect from the end of any Additional Lease Term.

Upon the fulfillment of all the conditions precedent to the commencement of the Lease Agreement, the Initial Lease Term commenced in January 2002.

(e) 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	
	2001 RMB'000	2000 RMB'000
Due to Unicom Group, beginning of year	**821,797**	505,367
Interconnection and roaming revenues	**(875,305)**	(339,536)
Interconnection and roaming charges	**298,828**	131,315
Due to Unicom Group arising from network construction costs paid by Unicom Group for China Unicom	**702,614**	524,651
Due to Unicom Group, end of year	**947,934**	821,797

The outstanding amounts were unsecured, non-interest-bearing and payable within one year. The average outstanding balances during 2001 were approximately RMB884,866,000 (2000: RMB636,480,000).

34. 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:

	Note	Consolidated Year ended 31 December 2001 RMB'000	2000 RMB'000
Interconnection revenue	(i)	**461,133**	298,596
Interconnection charges	(i)	**1,375,852**	1,145,913
Leased line charges	(ii)	**668,386**	1,008,077
Operating lease charges	(iii)	**33,127**	135,075
Agency fee on collection of revenue	(iv)	**2,665**	108,943
Social service fees	(v)	**—**	15,907

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.

(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. For 2001, such social service agreement was terminated and no more services have been rendered by China Telecom.

34. TRANSACTIONS WITH CHINA TELECOM (Cont'd)

(b) Amounts due from and to China Telecom

	Consolidated As of 31 December 2001 RMB'000	Consolidated As of 31 December 2000 RMB'000
Amounts due from China Telecom		
- revenue collected on behalf of Guoxin	**258,317**	485,434
- less: provision for doubtful debts	**(58,857)**	(109,188)
	199,460	376,246
Amounts due to China Telecom		
- payables for interconnection charges, leased lines, operating leases, social service fees, etc.	**742,366**	1,276,965
Long-term payable due to China Telecom		
- payables for obligations under finance leases:		
- current portion of obligations under finance leases	**8,151**	—
- obligations under finance leases	**100,757**	—
	108,908	—

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

Long-term payable for obligations under finance lease was related to the leasing of certain subsea transmission cables from China Telecom for a period of 25 years. (Note 29).

35. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents short-term bank deposits approximate their fair values because of the short maturity of those instruments. Cash and cash equivalents and short-term bank deposits denominated in foreign currencies summarised as below, have been translated to RMB at the applicable rates quoted by the People's Bank of China.

	Consolidated As of 31 December					
	2001			2000		
	Original Currency ('000)	Exchange rate	RMB equivalent ('000)	Original Currency ('000)	Exchange rate	RMB equivalent ('000)
Cash and cash equirvalent						
– denonrinated in HK$	1,777,224	1.06	1,886,523	8,264,893	1.06	8,765,746
– denonrinated in US dollars	899,868	8.28	7,448,635	3,588,218	8.27	29,683,891
Sub-total			9,335,158			38,449,637
Short-term bank deposits						
– denonrinated in HK$	5,941,644	1.06	6,307,055	1,647,445	1.06	1,747,280
– denonrinated in US dollars	2,222,981	8.28	18,400,664	730,926	8.27	6,046,655
Sub-total			24,707,19			7,793,935
Total			34,042,877			46,243,572

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.

36. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

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

	Land use rights and buildings RMB'000	Equipment RMB'000	Total RMB'000
Authorised and contracted for	574,205	9,382,730	9,956,935
Authorised but not contracted for	89	78,587	78,676
Total	574,294	9,461,317	10,035,611

As of 31 December 2001, approximately RMB662 million (2000: RMB1,387 million) of capital commitment outstanding was denominated in US dollars (i.e. US$80 million (2000: US$167 million)).

36. CONTINGENCIES AND COMMITMENTS (Cont'd)

(b) Operating lease commitments

As of 31 December 2001, the Group had the following commitments under operating leases:

	Land use rights and buildings RMB'000	Equipment RMB'000	Total RMB'000
Leases expiring in:			
2002	231,064	1,723,897	1,954,961
2003	176,080	83,786	259,866
2004	166,038	49,891	215,929
2005	133,164	43,312	176,476
2006	120,639	30,570	151,209
Thereafter	481,206	278,490	759,696
Total	1,308,191	2,209,946	3,518,137

As of 31 December 2001, the Company had the following commitments under operating leases:

	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000
Leases expiring in:			
2002	1,550	—	1,550
2003	22,641	—	22,641
Total	24,191	—	24,191

As of 31 December 2001, the Group and the Company had no significant contingent liabilities.

(c) Commitment of CDMA network

In accordance with the Lease Agreement among China Unicom, Unicom Group and Unicom New Horizon, China Unicom has agreed to lease CDMA network capacity from Unicom New Horizon to the Group to provide CDMA cellular communication services in 9 provinces and 3 municipalities (See Note 33(d)). The term of the lease is for an initial period of one year, start from January 2002. Based on a forecast of CDMA subscriber growth and the anticipated capacity of the lease, China Unicom estimates that the total lease fee payable during the Initial Lease Term will be approximately RMB1.47 billion.

37. EVENTS AFTER BALANCE SHEET DATE

On 6 March 2002, Unicom Xingye Science and Technology Trade Co. settled the amount due to the Group of approximately RMB464,439,000 as of 31 December 2001.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with new disclosure requirement under new HK SSAP.

39. 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 Paging Businers and Long Distance, Data and Internet Business of the Group also faces intense competition from China Telecom and other operators 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.

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.

39. CONCENTRATION OF RISK (Cont'd)

Adequate financing for future expansion

Substantial financing will be required by the Group to broaden the existing range of telecommunications 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 2001, cash and cash equivalents and short-term bank deposits were mainly maintained with state-owned banks in the PRC and commercial banks in Hong Kong.

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 in 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 and 28.

40. 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 telecommunications 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.

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 telecommunications 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.

40. SEGMENT INFORMATION (Cont'd)

(a) Business segments

	Year ended 31 December											
	2001						2000					
	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
Revenue:												
Usage fee	14,937,448	—	2,120,997	—	—	17,058,445	8,212,332	—	470,526	—	—	8,682,858
Monthly fee	3,660,473	4,141,232	—	—	—	7,801,705	2,476,104	7,992,999	7,076	—	—	10,476,179
Connection fee	204,986	1,595	—	—	—	206,581	517,642	68,233	—	—	—	585,875
Interconnection revenue	1,262,267	—	724,624	—	—	1,986,891	753,591	—	293,745	—	—	1,047,336
Leased lines rental	—	—	427,195	—	—	427,195	—	—	321,255	—	—	321,255
Other revenue	439,884	198,997	36,128	—	—	675,009	228,135	422,258	3,792	—	—	654,185
Total services revenue	20,505,058	4,341,824	3,308,944	—	—	28,155,826	12,187,804	8,483,490	1,096,394	—	—	21,767,688
Sales of telecommunications products	820,585	416,475	—	—	—	1,237,060	696,058	1,228,712	—	—	—	1,924,770
Total revenue from external customers	21,325,643	4,758,299	3,308,944	—	—	29,392,886	12,883,862	9,712,202	1,096,394	—	—	23,692,458
Intersegment revenue	651	66,734	1,169,929	—	(1,237,314)	—	—	180,701	455,722	—	(636,423)	—
Total revenues	21,326,294	4,825,033	4,478,873	—	—	29,392,886	12,883,862	9,892,903	1,552,116	—	—	23,692,458
Operating expenses:												
Leased lines	(533,455)	(307,348)	(430,532)	—	418,029	(853,306)	(580,596)	(759,025)	(274,224)	—	455,722	(1,158,123)
Interconnection charges	(2,195,396)	—	(634,345)	—	757,157	(2,072,584)	(1,268,574)	—	(110,891)	—	—	(1,379,465)
Depreciation and amortisation	(5,556,317)	(1,754,973)	(947,372)	(3,634)	—	(8,262,296)	(3,605,529)	(1,827,535)	(300,887)	(364)	—	(5,734,315)
Personnel	(1,106,962)	(937,198)	(410,112)	(32,946)	—	(2,487,218)	(361,914)	(1,354,964)	(52,962)	—	—	(1,769,840)
Selling and marketing	(2,486,867)	(478,478)	(708,854)	—	61,309	(3,612,890)	(1,426,829)	(952,210)	(294,095)	—	180,701	(2,492,433)
General, administrative and other expenses	(3,046,235)	(1,760,688)	(644,082)	(48,811)	819	(5,498,997)	(1,772,753)	(1,809,425)	(146,706)	(14,179)	—	(3,743,063)
Cost of telecommunications products sold	(788,218)	(554,026)	—	—	—	(1,342,244)	(380,849)	(1,812,089)	—	—	—	(2,192,938)
Total operating expenses	(15,713,450)	(5,792,711)	(3,775,297)	(85,391)	—	(24,129,535)	(9,397,044)	(8,515,248)	(1,179,765)	(14,543)	—	(18,470,177)

40. SEGMENT INFORMATION (Cont’d)

(a) Business segments (Cont‘d)

	Year ended 31 December 2001 Cellular Business RMB’000	2001 Paging Business RMB’000	2001 Long Distance, Data and Internet Business RMB’000	2001 Unallocated amounts RMB’000	2001 Elimination RMB’000	2001 Total RMB’000	2000 Cellular Business RMB’000	2000 Paging Business RMB’000	2000 Long Distance, Data and Internet Business RMB’000	2000 Unallocated amounts RMB’000	2000 Elimination RMB’000	2000 Total RMB’000
Operating income (loss)	5,612,844	(967,678)	703,576	(85,391)	—	5,263,351	3,486,818	1,377,655	372,351	(14,543)	—	5,222,281
Financial income	31,544	23,493	3,078	2,038,857	—	2,096,972	100,944	52,320	636	1,594,905	—	1,748,805
Financial expense	(1,560,826)	(40,569)	(316,171)	—	—	(1,917,566)	(1,149,432)	—	(204,314)	—	—	(1,353,746)
Loss arising from terminations of CCF Arrangements	—	—	—	—	—	—	(1,184,534)	—	(9,304)	—	—	(1,193,838)
Other (expenses) income, net	(842)	(6,159)	(1,544)	28,376	—	19,831	9,493	49,736	—	—	—	59,229
Segment income (loss) before taxation and minority interests	4,082,720	(990,913)	388,939	1,981,842	—	5,462,588	1,263,289	1,479,711	159,369	1,580,362	—	4,482,731
Taxation					—	(1,041,137)					—	(1,104,969)
Income before minority interests					—	4,421,451					—	3,377,762
Minority interests					—	35,310					—	(143,711)
Net income					—	4,456,761					—	3,234,051
Total segment assets	65,320,115	11,306,153	17,057,714	34,220,910	—	127,904,892	42,393,650	14,748,230	8,763,617	46,923,329	—	112,828,826
Total segment liabilities	52,359,025	3,278,990	9,725,220	31,089	—	65,394,324	41,207,608	5,482,298	7,963,449	67,817	—	54,721,172
Other information: Provision or (write-back) for doubtful debts	517,663	(14,510)	37,801	—	—	540,954	355,082	85,430	4,319	—	—	444,831
Equity investment for segment assets	—	4,146	—	—	—	4,146	—	25,700	—	—	—	25,700
Impairment loss recognised in the income statement	—	632,511	—	—	—	632,511	—	—	—	—	—	—
Capital expenditures for segment assets (1)	20,777,990	549,338	7,332,060	2,594,071	—	31,253,459	17,277,859	2,178,287	5,713,435	10,655	—	25,180,236

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

(b) Geographical segments

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

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment, 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 2001, 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.