Notes to the Financial Statements

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activities of the Company are investment holding and the Company's subsidiaries are engaged in the provision of GSM and CDMA cellular, data, Internet, long distance and paging services in the PRC. The GSM and CDMA business hereinafter collectively refer to as the "Cellular Business". The Company and its subsidiaries are hereinafter referred to as the "Group".

The Group completed the following acquisitions and sale activities in 2002 and 2003:

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

In 2002, the Company acquired the entire equity interests in Unicom New Century from its ultimate parent company, China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to as "Unicom Group"). For details of this acquisition, please refer to Note 4(a).

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

In 2003, the Company acquired the entire equity interests in Unicom New World from Unicom Group. For details of this acquisition, please refer to Note 4(b).

Sale of Guoxin Paging Corporation Limited ("Guoxin Paging")

In 2003, the Company sold the entire equity interests in Guoxin Paging to Unicom Group. For details of the sale, please refer to Note 5.

After the above acquisitions and sale, the Company expanded its Cellular Business's geographical coverage to 30 provinces, municipalities or autonomous regions in the PRC (which covers the whole mainland China apart from Guizhou Province) and discontinued its nationwide paging operation in the PRC.

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). The majority of the equity interests in Unicom BVI is owned by China United Telecommunications Corporation Limited (a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The directors of the Company consider Unicom Group to be the ultimate parent company.

2. BASIS OF PRESENTATION

The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain land and building and investments in securities are stated at fair value. They have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") issued by the Hong Kong Society of Accountants ("HKSA"). This basis of accounting differs from that used in the preparation of statutory 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 provision for certain housing benefits;
- Additional capitalisation of borrowing costs;
- Provision for deferred taxation on HK GAAP adjustments; and
- Capitalisation of the direct costs associated with the acquisition of subsidiaries.

The Company has adopted the purchase method to account for the acquisitions of Unicom New Century and Unicom New World. The excess of the purchase consideration over the fair values of the net assets acquired has been recorded as goodwill, which is amortised using the straight-line method over a period of 20 years. The effective dates of the acquisitions of Unicom New Century and Unicom New World were 31 December 2002 and 31 December 2003 respectively. The operating results of these acquired subsidiaries have been included in the consolidated income statement of the Group after the acquisitions were effective.

The sale of Guoxin Paging has been accounted for as a disposal of discontinued operation by the Group. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of the effective date of disposal (31 December 2003) was recorded as the loss on sale of discontinued operation in the consolidated income statement of the Group. The operating results of Guoxin Paging for 2003 was included in the consolidated income statement of the Group up to the effective date of the sale.

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

In current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised)	Income tax
SSAP 35	Government Grants and Disclosure of Government Assistance

Upon the adoption of SSAP 12 "Income Taxes" (revised) ("SSAP 12") in 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying accounts in the financial statements. Taxation rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Prior to 2003, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the income statement. A deferred tax asset was not recognised unless the related benefits are expected to crystallise in the foreseeable future. The adoption of SSAP 12 in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the consolidated statement of changes in equity, the change in the accounting policy has resulted in an increase of opening retained profits as of 1 January 2003 and 2002 by approximately RMB405,300,000 and RMB373,159,000, respectively, representing the deferred tax assets relating to the provision for doubtful debts previously not recognised. This change has resulted in an increase in deferred tax assets at 1 January 2003 by approximately RMB405,300,000. The profit for the year ended 31 December 2002 has also been increased by approximately RMB32,141,000.

The adoption of SSAP 12 has also resulted in an increase of the deferred tax assets of Unicom New Century as of 31 December 2002 by approximately RMB80,448,000. This adjustment increased the net assets value of Unicom New Century on 31 December 2002 and accordingly reduced the goodwill recorded by the Group arising from the acquisition of Unicom New Century on 31 December 2002.

Since the impact of the adoption of the SSAP 35 "Government Grants and Disclosure of Government Assistance" on the Group's financial statements is not significant, no prior period adjustment has been required.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting

(i) Consolidation

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

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

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

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

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

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

(ii) Associated companies

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

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

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

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

(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 amounts and disclosures. Accordingly, actual results may differ from those estimates and assumptions.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

(i) Land use rights and building

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

(ii) Other fixed assets

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

(iii) Depreciation

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

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

(iv) Construction-in-progress

Construction-in-progress represents buildings and plant under construction 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

(v) Impairment and gains or loss on disposal

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

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

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

(e) Goodwill

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) *Other assets*

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

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

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

(g) *Investments in securities*

(i) Investment securities

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

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

(ii) Trading securities

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

(h) *Cash and cash equivalents*

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

(i) *Short-term bank deposits*

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Accounts receivables and other receivables

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

(k) Inventories

Inventories, which principally comprise handsets, SIM cards, UIM cards, pagers and accessories, are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as expense in the period in which the reversal occurs.

(l) Advances from customers

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

(m) Assets under lease

(i) Finance leases

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

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

(ii) Operating leases

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Borrowing costs

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

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

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

The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varies from 4.44% to 5.76% for the year ended 31 December 2003 (2002: 4.54% to 6.24%).

(o) Provisions

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Revenue recognition

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

- Usage fees are recognised when the service is rendered;
- Monthly fees are recognised as revenue in the month during which the services are rendered;
- Revenue from telephone cards, which represent prepaid service fees received from customers for telephone 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 a straight-line basis over the lease term; and
- Sales of telecommunications products, such as handsets, SIM cards, UIM cards, pagers and accessories etc, are recognised when title has been passed to the buyers.

(ii) Interest income

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

(iii) Dividend income

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

(q) Foreign currency translation

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

(r) Employee benefits

(i) Retirement benefits

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

(ii) Housing benefits

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

(iii) Equity compensation benefits

Share options are granted to directors and employees under the relevant share option schemes of the Company approved by the Board of Directors (Note 31). The financial impact of the share option granted is not recorded in the financial statements until such time when the options are exercised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(s) Taxation

(i) Income tax

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

(ii) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(t) Related parties

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

(u) Contingent liabilities and contingent assets

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Events after the balance sheet date

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

(w) Segment reporting

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

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

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

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

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

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

4. ACQUISITIONS

(a) Acquisition of Unicom New Century

Unicom New Century was a limited liability company established in the PRC on 16 July 2002 to engage in the provision of GSM and CDMA cellular telecommunications services in 6 provinces, 2 autonomous regions and 1 municipality in the PRC, namely, Sichuan, Heilongjiang, Jilin, Henan, Jiangxi , Shannxi ,Guangxi, Xinjiang and Chongqing. The Cellular Business of Unicom New Century and the relevant net assets were previously owned and operated by various branches of Unicom Group.

Pursuant to the resolution passed by the Company's Board of Directors on 20 November 2002 and the extraordinary general meeting of the Company's shareholders on 23 December 2002, the Company acquired the entire equity interests in Unicom New Century (via the intermediary holding company, Unicom New Century (BVI) Limited) at a cash consideration of approximately RMB4,909 million (including other direct costs of acquisition of approximately RMB109 million). Thereafter, Unicom New Century has become a wholly-owned subsidiary of the Company.

4. ACQUISITIONS (continued)

(a) *Acquisition of Unicom New Century (continued)*

The aforementioned acquisition of Unicom New Century became effective on 31 December 2002 when all the conditions to the acquisition were satisfied and cash consideration was settled by the Group. The Company has adopted the purchase method of accounting to account for this acquisition. The total fair value of the identifiable assets and liabilities of Unicom New Century as of 31 December 2002 amounted to approximately RMB2,624 million. The excess of purchase consideration over the fair value of identifiable assets and liabilities has been recorded as goodwill amounting to approximately RMB2,285 million, which is amortised using the straight-line method over the beneficial period of 20 years.

As the effective date of this acquisition was 31 December 2002, both the operating results and the financial position of Unicom New Century have been included in the consolidated financial statements of the Group for the year ended 31 December 2003. However, the 2002 comparatives only reflected the financial position of Unicom New Century in the consolidated balance sheet and excluded the operating results of Unicom New Century in the consolidated income statement of the Group.

On 30 June 2003, the Company entered into a share transfer agreement with Unicom New Century (BVI) Limited and acquired the entire share capital of Unicom New Century from Unicom New Century (BVI) Limited. Thereafter, Unicom New Century became a direct wholly-owned subsidiary of the Company.

Operating revenue and net profit for the year ended 31 December 2003 of Unicom New Century amounted to approximately RMB15,946 million and RMB364 million respectively.

(b) *Acquisition of Unicom New World*

Unicom New World was a limited liability company established in the PRC on 4 November 2003 to engage in the provision of GSM and CDMA cellular telecommunications services in 6 provinces and 3 autonomous regions in the PRC, namely, Shanxi, Hunan, Hainan, Yunnan, Gansu, Qinghai, Inner Mongolia, Ningxia and Xizang. The Cellular Business of Unicom New World and the relevant net assets were previously owned and operated by various branches of Unicom Group.

Pursuant to the resolution passed by the Company's Board of Directors on 20 November 2003 and the extraordinary general meeting of the Company's shareholders on 23 December 2003, the Company acquired the entire equity interests in Unicom New World (via the intermediary holding company, Unicom New World (BVI) Limited) at a cash consideration of approximately RMB3,249 million (including other direct costs of acquisition of approximately RMB49 million). Thereafter, Unicom New World has become a wholly-owned subsidiary of the Company.

After all the conditions to the acquisition were satisfied and the cash consideration was settled by the Group, the acquisition of Unicom New World became effective on 31 December 2003. The Company has adopted the purchase method of accounting to account for this acquisition. The total fair value of the identifiable assets and liabilities of Unicom New World as of 31 December 2003 amounted to approximately RMB2,104 million. The excess of purchase consideration over the fair value of the identifiable assets and liabilities has been recorded as goodwill amounting to approximately RMB1,145 million, which is amortised using the straight-line method over the expected beneficial period of 20 years.

4. ACQUISITIONS *(continued)*

(b) Acquisition of Unicom New World (continued)

As the effective date of this acquisition was 31 December 2003, the consolidated financial statements did not include the operating results of Unicom New World, but included the financial position of Unicom New World as of 31 December 2003.

Operating revenue and net profit for the year ended 31 December 2003 of Unicom New world amounted to approximately RMB8,135 million and RMB349 million respectively.

The fair value of the net assets acquired and net cash outflow in respect of the acquisition of Unicom New World were as follows:

	Note	As of 31 December 2003 RMB'000
The fair value of the net assets acquired:		
Property, plant and equipment, net		12,106,458
Other assets		583,827
Deferred tax assets		14,010
Current portion of deferred tax assets		192,918
Amounts due from related parties		207,237
Amounts due from domestic carriers		5,745
Prepayments and other current assets		283,287
Inventories		307,503
Accounts receivable, net		357,880
Bank balances and cash	(i)	923,551
Payables and accrued liabilities		(1,951,215)
Amounts due to Unicom Group		(1,005,135)
Amounts due to related parties		(324,597)
Amounts due to domestic carriers		(52,473)
Current portion of long-term bank loans		(2,213,216)
Long-term bank loans		(5,473,734)
Taxes payable		(46,764)
Advances from customers		(604,862)
Short-term bank loans		(1,206,000)
		2,104,420
Goodwill		1,144,957
Less: direct costs of acquisition		(49,377)
Consideration paid		3,200,000
The net cash outflow in respect of the acquisition of Unicom New World was as follows:		
Cash consideration		3,200,000
Bank balances and cash acquired (less restricted bank deposits)	(i)	(873,551)
Net cash outflow in respect of the acquisition of Unicom New World		2,326,449

Note (i): As of 31 December 2003, approximately RMB50 million bank balances was restricted by the bank to secure for long-term bank loans.

5. SALE OF DISCONTINUED OPERATION (GUOXIN PAGING)

Guoxin Paging was established as a limited liability company in the PRC in September 1998. Guoxin Paging originally operated a nationwide paging business through its 31 subsidiaries and branches in 27 provinces and autonomous regions and 4 municipalities in the PRC and was wholly-owned by China Unicom Corporation Limited (hereinafter referred to as "CUCL", a direct wholly-owned subsidiary of the Company).

The Group originally had 5 operating segments namely GSM Business, CDMA Business, Data and Internet Business, Long Distance Business and Paging Business (see Note 35). Pursuant to the ordinary resolution passed by the Company's Board of Directors on 20 November 2003, the Board of Directors announced the plan to dispose of the Paging Business to the ultimate parent company, Unicom Group. The disposal is consistent with the Group's long term strategy to focus its activities in the core telecommunication business. After obtaining the independent shareholders' approval in an extraordinary general meeting of the Company's shareholders on 23 December 2003, the Company completed the sale of the entire equity interests in Guoxin Paging to Unicom Group at a cash consideration of RMB2,750 million.

The sale of Guoxin Paging became effective on 31 December 2003 after all the conditions to the sale were satisfied, the majority of cash proceeds was settled by Unicom Group, and ownership as well as control was passed to Unicom Group. The total net assets of Guoxin Paging as of 31 December 2003 amounted to approximately RMB3,413 million, and the difference between the sale proceeds and the net assets disposed amounting to approximately RMB663 million, has been recorded as the loss on sale of discontinued operation.

Since the effective date of this sale was 31 December 2003, the operating results of Guoxin Paging have been included in the consolidated income statement of the Group up to this date. Details of the sale were set forth in the related shareholders' circular "Connected Transactions" of the Company dated 26 November 2003.

(a) The total assets and total liabilities of Guoxin Paging comprised the following:

	Guoxin Paging	
	As of 31 December 2003 RMB'000	As of 31 December 2002 RMB'000
Non-current assets	3,914,492	4,964,886
Current assets	2,048,250	2,264,714
Total assets	5,962,742	7,229,600
Total liabilities	(1,997,772)	(2,098,986)
Minority interest	(551,691)	(566,257)
Net assets	3,413,279	4,564,357

5. SALE OF DISCONTINUED OPERATION (GUOXIN PAGING) (continued)

(b) The net assets sold and net cash inflow in respect of the sale of Guoxin Paging were as follows:

	As of 31 December 2003 RMB'000
Net assets sold:	
Property, plant and equipment, net	3,647,083
Other assets	151,067
Investment securities	99,157
Investment in associated companies	17,185
Amount due from Unicom Group	9,440
Amount due from related parties	277,457
Amount due from domestic carriers	54,821
Prepayments and other current assets	207,813
Inventories	104,753
Accounts receivable, net	107,632
Trading securities	165,493
Short-term bank deposits	80,000
Bank balances and cash	1,040,841
Dividend payable	(8,260)
Payables and accrued liabilities	(1,491,890)
Amount due to related parties	(121,173)
Amount due to domestic carriers	(235,275)
Taxes payable	(17,669)
Advances from customers	(123,505)
Minority interests	(551,691)
	3,413,279
Less: sale proceeds	(2,750,000)
Loss on sale of discontinued operation	663,279
The net cash inflow in respect of the sale of discontinued opeartion was as follows:	
Sale proceeds received	2,300,000
Bank balances and cash disposed	(1,040,841)
Net cash inflow in respect of the sale of discontinued operation	1,259,159

5. SALE OF DISCONTINUED OPERATION (GUOXIN PAGING) (continued)

(c) The operating results of the Group attributable to the continuing operations and discontinued operation (Guoxin Paging) were as follows:

	Continuing operations		Discontinued operation (Guoxin Paging)		Group as a whole	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Operating revenue (Turnover)	65,249,242	36,604,071	2,387,083	3,972,454	67,636,325	40,576,525
Operating expenses	(55,531,586)	(28,656,496)	(3,590,693)	(4,596,345)	(59,122,279)	(33,252,841)
Operating profit (loss)	9,717,656	7,947,575	(1,203,610)	(623,891)	8,514,046	7,323,684
Loss on sale of discontinued operation	–	–	(663,279)	–	(663,279)	–
Interest income	163,934	452,908	9,099	17,374	173,033	470,282
Finance costs	(1,930,784)	(1,466,093)	(5,238)	(8,348)	(1,936,022)	(1,474,441)
Other (loss) income, net	(31,797)	(41,352)	39,868	24,993	8,071	(16,359)
Profit (loss) before taxation	7,919,009	6,893,038	(1,823,160)	(589,872)	6,095,849	6,303,166
Taxation	(2,307,596)	(1,895,987)	419,215	175,782	(1,888,381)	(1,720,205)
Profit (loss) after taxation	5,611,413	4,997,051	(1,403,945)	(414,090)	4,207,468	4,582,961

(d) The cash flows of the Group attributable to the continuing operations and discontinued operation (Guoxin Paging) were as follows:

	Continuing operations		Discontinued operation (Guoxin Paging)		Group as a whole	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Net cash inflow from operating activities	22,141,521	12,692,415	423,738	361,863	22,565,259	13,054,278
Net cash outflow from investing activities	(18,660,174)	(4,579,122)	(391,129)	(586,917)	(19,051,303)	(5,166,039)
Net cash outflow from financing activities	(8,752,829)	(11,703,468)	(24,689)	(164,283)	(8,777,518)	(11,867,751)
Net (decrease)/increase in cash and cash equivalents	(5,271,482)	(3,590,175)	7,920	(389,337)	(5,263,562)	(3,979,512)

6. OPERATING REVENUE

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

Operating revenue is net of business tax and government surcharges.

The major components of operating revenue are as follows:

	Note	2003 RMB'000	2002 RMB'000
GSM Business			
Usage fee	(i) (a)	29,072,249	20,274,987
Monthly fee	(ii)	7,042,299	4,169,129
Interconnection revenue	(iii)	1,926,907	1,709,771
Other revenue	(v)	2,262,156	1,234,038
Total GSM service revenue		40,303,611	27,387,925
CDMA Business			
Usage fee	(i) (a)	11,671,523	2,231,050
Monthly fee	(ii)	3,488,411	713,483
Interconnection revenue	(iii)	607,830	184,296
Other revenue	(v)	855,754	96,518
Total CDMA service revenue		16,623,518	3,225,347
Data and Internet Business			
Usage fee	(i) (b)	2,443,610	2,069,415
Monthly fee	(ii)	9,085	9,478
Interconnection revenue	(iii)	361,514	348,248
Leased lines rental	(iv)	420,433	274,274
Other revenue	(v)	202,441	91,624
Total Data and Internet service revenue		3,437,083	2,793,039
Long Distance Business			
Usage fee	(i) (b)	1,148,040	1,223,051
Interconnection revenue	(iii)	365,724	664,302
Leased lines rental	(iv)	701,549	873,054
Other revenue	(v)	57,835	5,316
Total Long Distance service revenue		2,273,148	2,765,723
Paging Business			
Monthly fee	(ii)	612,999	1,912,786
Interconnection revenue	(iii)	1,654	113,123
Other revenue	(v)	788,400	135,279
Total Paging service revenue		1,403,053	2,161,188
Total service revenue		64,040,413	38,333,222
Sales of telecommunications products		3,595,912	2,243,303
Total operating revenue		67,636,325	40,576,525

6. OPERATING REVENUE (continued)

Notes:

(i) *Usage fees comprise:*

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

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

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

(iii) *Interconnection revenue represents amounts received from other operators, including Unicom Group, for calls from their networks to the Group's networks. It also includes roaming-in fees received from other operators, including Unicom Group, for calls made by their subscribers using the Group's cellular networks (see Notes 32(a) and 34(a)).*

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

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

7. PROFIT BEFORE TAXATION

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

	Note	2003 RMB'000	2002 RMB'000
After charging/(crediting):			
Share of losses (profits) from associated companies	10	2,275	(553)
Dividends from investment securities	10	(2,573)	(24,978)
Realised gains on trading securities	10	(12,045)	(1,876)
Unrealised (gains) losses on trading securities	10	(10,129)	27,461
Realised gains on investment securities	10	(13,268)	(18,098)
Gains on disposal of interests in associated company	10	—	(1,251)
Interest income		(173,033)	(470,282)
Interest expense:	9	2,523,512	1,879,663
Less: amounts capitalised in construction-in-progress	9	(604,137)	(422,927)
Total interest expenses	9	1,919,375	1,456,736
Depreciation:			
- Assets held under finance leases	21	12,154	20,046
- Other assets		15,963,117	10,830,635
Total depreciation	21	15,975,271	10,850,681
Amortisation of goodwill	22	115,260	23,414
Other amortisation	23	294,762	381,629
Amortisation of deferred customer acquisition costs of contractual CDMA subscribers	20(a)	5,836,587	1,385,424
Loss on disposal of property, plant and equipment	8(iv)	49,940	82,467
Auditors' remuneration		54,003	38,916

7. PROFIT BEFORE TAXATION (continued)

	Note	2003 RMB'000	2002 RMB'000
After charging/(crediting):			
Operating lease expense:			
— Leased lines		805,018	691,358
— CDMA network capacities	32(a)	3,515,364	891,897
— Other leasing expense	8(iv)	882,671	610,931
Total operating lease expense		5,203,053	2,194,186
Provision for doubtful debts:			
— GSM Business		1,116,523	802,914
— CDMA Business		397,810	42,050
— Data and Internet Business		125,676	70,922
— Long Distance Business		75,870	46,124
— Paging Business		34,008	9,979
Total provision for doubtful debts	8(iv)	1,749,887	971,989
Cost of inventories		3,570,234	2,161,512
Write-down of inventories to net realisable value		47,101	7,156
Provision for impairment in value of investments in investment securities		—	650
Personnel:			
— Salaries and wages		3,676,168	2,654,845
— Contributions to defined contribution pension schemes	12	273,182	203,164
— Contributions to supplementary defined contribution pension schemes	12	39,854	11,066
— Special monetary housing benefits	13	109,210	277,944
— Contributions to other housing fund	13	170,614	92,549
— Other housing benefits	13	305,518	95,650
Total personnel		4,574,546	3,335,218
Additional provision for impairment of property, plant and equipment and goodwill	8(iv), 21	528,048	38,797
Exchange losses, net	10	9,960	21,533

8. OPERATING EXPENSES

Major components of operating expenses is as follows:

(i) Leased line charges incurred in association with leasing of transmission capacity from other operators and leasing expenses related to CDMA network capacities from Unicom New Horizon (see Notes 32(a), 33 and 34(a)).

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

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

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

	2003 RMB'000	2002 RMB'000
Operating lease rental expenses	882,671	610,931
Repair and maintenance expenses	1,387,466	832,259
Provision for doubtful debts	1,749,887	971,989
Loss on disposal of property, plant and equipment	49,940	82,467
Provisions for impairment of property, plant and equipment and goodwill (Note 21)	528,048	38,797
Traveling, entertainment and meeting expenses	1,242,166	850,876
Power and water charges	1,313,099	729,650
Office expenses	749,080	582,187
Other	1,210,028	932,694
	9,112,385	5,631,850

9. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank loans repayable over 5 years	124,105	41,115
Interest on bank loans repayable within 5 years	2,399,407	1,838,548
Less: Amounts capitalised in construction-in-progress	(604,137)	(422,927)
Total interest expenses	1,919,375	1,456,736
Bank charges	16,647	17,705
	1,936,022	1,474,441

10. OTHER (INCOME) EXPENSES, NET

	2003 RMB'000	2002 RMB'000
Share of losses (profit) from associated companies	2,275	(553)
Dividends from investment securities	(2,573)	(24,978)
Realised gains on trading securities	(12,045)	(1,876)
Unrealised (gains) losses on trading securities	(10,129)	27,461
Realised gains on investment securities	(13,268)	(18,098)
Losses from exchange difference	9,960	21,533
Gains on disposal of interests in associated company	—	(1,251)
Other	17,709	14,121
	(8,071)	16,359

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

(a) Directors' emoluments

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

	2003 RMB'000	2002 RMB'000
Non-executive directors:		
Fees	1,594	849
Executive directors:		
Fees	—	—
Other emoluments:		
— Salaries, allowance and other allowances	9,352	9,722
— Pension benefits/pension scheme contributions	106	38
— Bonuses paid and payable	9,688	5,887
	19,146	15,647
	20,740	16,496

Non-executive directors' emoluments disclosed above include approximately RMB1,275,000 (2002: approximately RMB636,000) paid to independent non-executive directors.

During 2003, 2,772,000 (2002: 2,802,000) share options were granted to the directors under the amended Share Option Scheme approved by the independent non-executive directors on 21 May and 30 May 2003 respectively. See Note 31(d) for the details of share options granted during the year.

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

(a) *Directors' emoluments (continued)*

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

(All amounts expressed in Hong Kong dollars)	Number of directors 2003	2002
$nil-$1,000,000	5	4
$1,000,001-$1,500,000	–	2
$2,000,001-$2,500,000	2	1
$2,500,001-$3,000,000	1	1
$3,000,001-$3,500,000	–	1
$3,500,001-$4,000,000	1	1
$6,500,001-$7,000,000	1	–
	10	10

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

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for 2003 include 4 directors (2002: 4) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual are as follows:

	2003 RMB'000	2002 RMB'000
Salaries, allowance and other allowances	1,435	1,432
Pension benefits/pension scheme contributions	38	–
Bonuses paid and payable	850	849
	2,323	2,281

The emoluments of the remaining individual during 2003 fell within the band of HK$2,000,001- HK$2,500,000 (2002: HK$2,000,001- HK$2,500,000).

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

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 defined contributions to the pension scheme at the rate of 19% for the year ended 31 December 2003 (2002: 19%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions.

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

Retirement benefits charged to the income statement were as follows:

	2003 RMB'000	2002 RMB'000
Contributions to defined contribution pension schemes	273,182	203,164
Contributions to supplementary defined contribution pension schemes	39,854	11,066

13. HOUSING BENEFITS

Under the housing reform schemes in accordance with government regulations at the provincial level in the PRC, the Group provided benefits to certain qualified employees to enable them to purchase living quarters at a discount. In the case of Guoxin Paging, the living quarters were provided by China Telecom prior to the establishment of Guoxin Paging and the related benefits were not charged to the Group. In the case of the GSM Business, certain of these living quarters were provided by Unicom Group and the related benefits were not charged to the Group. Housing benefits which were not charged to the Group amounted to approximately RMB18.5 million for 2003 (2002: RMB18.5 million).

Subsequent to the establishment of Guoxin Paging, 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 of 10% (2002: 10%) 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.

13. HOUSING BENEFITS (continued)

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

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

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

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

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

For the years ended 31 December 2003 and 2002, certain provinces achieved the annual performance budget and were thus approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the years ended 31 December 2003 and 2002 amounted to approximately RMB109,210,000 and 277,944,000, respectively, based on the aforementioned distribution plan. The remaining provinces were not entitled to the special monetary housing benefits in 2003 since they did not achieve their annual performance budget in 2003 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):

	2003 RMB'000	2002 RMB'000
Special monetary housing benefits	109,210	277,944
Contributions to housing fund	170,614	92,549
Other housing benefits	305,518	95,650
	585,342	466,143

14. TAXATION

Provision for taxation represents:

	Note	2003 RMB'000	2002 RMB'000 As restated
Provision for PRC enterprise income tax on the estimated taxable profits for the year		1,064,968	1,192,801
Deferred taxation	3(a)	823,413	527,404
		1,888,381	1,720,205

There is no Hong Kong profits tax liability as the Group does not have any assessable income sourced from Hong Kong for 2003 and 2002.

The income tax liabilities of the Group were assessed as follows:

(a) The tax liabilities of CUCL and its wholly-owned subsidiaries for 2003 and 2002 were assessed in accordance with FIE ("Foreign Investment Enterprises") taxation requirements on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing as approved by the tax authority;

(b) The tax liabilities of Unicom New Century for 2003 was assessed in accordance with FIE taxation requirements on a consolidated basis as a single entity; and

(c) Various provincial branches/municipal cities of CUCL and Unicom New Century were granted a preferential treatment by tax authorities to assess their enterprise income tax at the rates of 30%, 15% or 10%. The remaining provincial branches were assessed at the standard tax rate of 33%.

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

	2003	2002 As restated
PRC		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses	0.3	1.5
Effect of preferential tax rates	(1.6)	(3.2)
Increase in opening deferred tax assets resulting from an increase in tax rate	(2.3)	—
Investment tax credits for domestic equipment (Note (a))	—	(2.8)
Additional expense deductible for tax purpose (Note (b))	(0.9)	—
Write-off of deferred tax assets previously recognised for Guoxin paging	1.9	—
Effective PRC income tax rate	30.4%	28.5%
Hong Kong		
Statutory tax rate of 17.5% (2002:16.0%)	17.5%	16.0%
Non-taxable income:		
— Interest income	(17.5)	(16.0)
Effective HK income tax rate	—	—
Total overall effective income tax rate	31.0%	27.3%

14. TAXATION (continued)

Tax effect of preferential tax rate is as follows:

	2003	2002
Aggregate amount (RMB in millions)	97	191.3
Per share effect (RMB)	0.008	0.015

Notes:

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

(b) During 2003, CUCL and Unicom New Century obtained approvals from the relevant tax authorities in the PRC that certain monetary housing benefits, which were previously treated as non-deductible expenses for income tax assessment purposes in prior years, could be used to deduct against enterprise income tax over 3 years. Accordingly, all the related deferred tax assets have been recognised in 2003 upon the receipt of the above tax approvals. Such deferred tax assets will be utilised on a straight-line basis over 3 years.

The movement of the deferred tax assets is as follows:

		The Group	
	Note	2003 RMB'000	2002 RMB'000 As restated
Balance, beginning of year		1,815,234	1,581,408
Change in accounting policy:			
— Recognition of additional deferred tax assets in relation to provision for doubtful debts	3(a)	—	373,159
Acquisition of Unicom New Century		—	388,071
Acquisition of Unicom New World		206,928	—
Deferred taxation charged to income statement		(823,413)	(527,404)
Balance, end of year		1,198,749	1,815,234

14. TAXATION (continued)

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

	Note	The Group 2003 RMB'000	The Group 2002 RMB'000 As restated
Deferred tax assets:			
Interest on loans from CCF joint ventures	(a)	256,673	287,998
Loss arising from terminations of CCF Arrangements	(a)	236,249	309,813
Income tax on advances from customers for telephone cards		261,467	471,657
Provision for impairment loss for property, plant and equipment		4,875	112,994
Provision for impairment loss for goodwill and difference in amortisation period		–	40,498
Provision for doubtful debts of Paging Business		–	38,673
Provision for doubtful debts of Cellular Business	3(a)	534,839	485,748
Write-off of other assets		7,563	17,662
Write-down of inventories to net realisable value		15,905	31,260
Amortisation of retirement benefits		18,549	37,379
Additional depreciation deductible for tax purpose		101,267	171,091
Differences on tax basis for the residual value of property, plant and equipment		7,608	19,634
Monetary housing benefits		56,826	–
Other		29,309	68,152
		1,531,130	2,092,559
Deferred tax liabilities:			
Change of depreciation period		(28,268)	(76,468)
Capitalised interest already deducted for tax purpose		(304,113)	(200,857)
		(332,381)	(277,325)
Net deferred tax assets		1,198,749	1,815,234
Less: Current portion of deferred tax assets		(873,849)	(988,666)
		324,900	826,568

Note:

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

15. PROFITS ATTRIBUTABLE TO SHAREHOLDERS

(a) CUCL and Unicom New Century were registered as foreign investment enterprises in the PRC. In accordance with the Articles of Association of CUCL and Unicom New Century, they are required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after tax and minority interests but before dividend distribution.

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

Appropriation to the staff bonus and welfare fund is at the discretion of the directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and are not distributable as cash dividends. Under HK GAAP, the appropriations to the staff bonus and welfare fund will be charged to income statement as expenses incurred since any assets acquired through this fund belong to the employees. For the year ended 31 December 2003, no appropriation to staff bonus and welfare fund has been made (2002: Nil).

Accordingly, CUCL and Unicom New Century appropriated approximately RMB382,030,000 (2002: RMB436,463,000) and RMB37,236,000 (2002: Nil) respectively to the general reserve fund for the year ended 31 December 2003.

As stated in Note 3(a), the change in accounting policy on income taxes has resulted in an increase of distributable reserves to shareholders of CUCL for the years ended 31 December 2002 and 2001 respectively. As a result, CUCL has made additional appropriation to the statutory reserves amounting to approximately RMB40,530,000 in 2003 (2002: RMB37,316,000).

(b) At the annual general meeting held on 12 May 2003, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2002 totalling RMB1,255,299,607 which has been reflected as an appropriation of retained profits for 2003. As of 31 December 2003, such dividends have been fully paid by the Company.

At a meeting held on 25 March 2004, the Board of Directors of the Company proposed the payment of final dividend of RMB0.10 per ordinary share to the shareholders for the year ended 31 December 2003 totalling RMB1,255,317,207. This proposed dividend has not been reflected as a dividend payable in the financial statements as of 31 December 2003, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 31 December 2004.

(c) For the year ended 31 December 2003, profit attributable to shareholders included a loss of approximately RMB21,654,000 (2002: a profit of approximately RMB287,492,000) which has been dealt with in the financial statements of the Company. As of 31 December 2003, the amount of distributable reserves to shareholders of the Company amounted to approximately RMB2,577,229,000 (2002: RMB3,854,183,000).

16. EARNINGS PER SHARE

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

Basic earnings per share for the years ended 31 December 2003 and 2002 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years.

Diluted earnings per share for the years ended 31 December 2003 and 2002 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years, after adjusting for the effects of the potential dilutive ordinary shares. All potential dilutive ordinary shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme as described in Note 31. For 2003, all potential dilutive shares arose from additional share options granted in 2003 under the amended Share Option Scheme (see details in Note 31), which if converted to ordinary shares would decrease profit attributable to the shareholders per share. For 2002, there was no dilution of earnings per share after taking into account the dilutive effect of the share options. The anti-dilutive shares arising from the share options of approximately 66,573,000 shares (2002: 48,745,000 shares) were not included in the calculation of diluted earnings per share.

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

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

	2003			2002		
	Profit attributable to shareholders RMB'000	Shares in thousands	Per share amount RMB	Profit attributable to shareholders RMB'000 As restated	Shares in thousands	Per share amount RMB As restated
Basic earnings	4,217,097	12,553,010	0.336	4,598,213	12,552,996	0.366
Effect of conversion of share options	–	15,673	–	–	–	–
Diluted earnings	4,217,097	12,568,683	0.336	4,598,213	12,552,996	0.366

17. TRADING SECURITIES

Trading securities represented listed equity securities in the PRC, which were carried at fair value. The realised gains on trading securities for the year ended 31 December 2003 amounted to approximately RMB12,045,000 (2002: RMB1,876,000) and the unrealised gains amounted to RMB10,129,000 (2002: unrealised loss of RMB27,461,000). As of 31 December 2003, no trading securities are maintained by the Group after the sale of Guoxin Paging on 31 December 2003.

18. ACCOUNTS RECEIVABLE, NET

	The Group	
	2003 RMB'000	2002 RMB'000
Accounts receivable for GSM services	5,268,041	3,920,821
Accounts receivable for CDMA services	2,408,093	1,004,754
Accounts receivable for Data and Internet services	696,802	410,479
Accounts receivable for Long Distance services	587,570	543,838
Accounts receivable for Paging services	–	181,348
Sub-total	8,960,506	6,061,240
Less: Provision for doubtful debts for GSM services	(2,716,396)	(1,466,803)
Provision for doubtful debts for CDMA services	(508,970)	(62,821)
Provision for doubtful debts for Data and Internet services	(158,313)	(99,214)
Provision for doubtful debts for Long Distance services	(105,280)	(60,176)
Provision for doubtful debts for Paging service	–	(44,958)
	5,471,547	4,327,268

The aging analysis of accounts receivable was as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Not yet due (within credit period)	3,433,584	2,818,296
Within three months	1,744,568	1,311,930
Three months to six months	750,719	464,750
Six months to one year	1,299,386	769,718
More than one year	1,732,249	696,546
	8,960,506	6,061,240

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

Provision for doubtful debts was analyzed as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance, beginning of year	1,733,972	1,005,937
Provision for the year	1,749,887	971,989
Acquisition of Unicom New Century	–	327,936
Acquisition of Unicom New World	199,904	–
Sale of Guoxin Paging	(64,664)	–
Written-off for the year	(130,140)	(571,890)
Balance, end of year	3,488,959	1,733,972

19. INVENTORIES

	The Group	
	2003 RMB'000	2002 RMB'000
Handsets	1,133,027	2,357,577
Telephone cards	855,183	672,728
Pagers	–	77,134
Others	181,144	122,464
	2,169,354	3,229,903

20. PREPAYMENTS AND OTHER CURRENT ASSETS

		The Group		The Company	
	Note	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepaid rental		233,461	85,185	–	–
Deposits and prepayments		1,624,874	1,069,939	7,652	4,781
Interest receivable		4,872	37,780	4,872	37,780
Advances to employees		164,487	106,749	–	–
Deferred customer acquisition costs of contractual CDMA subscribers	(a)	535,521	508,596	–	–
Others		584,562	765,515	15,808	–
		3,147,777	2,573,764	28,332	42,561

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	3,109,944	2,227,594	28,116	42,561
Over one year	37,833	346,170	216	–
	3,147,777	2,573,764	28,332	42,561

20. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

Note:

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

Under the terms of these contracts, subscribers are required to spend a minimum amount of service fees during the contract period. In addition, to secure future performance, these subscribers are also required to (i) prepay service fees or deposits, (ii) maintain a restricted bank deposits in a designated commercial banks to secure the minimum contract amount, or (iii) provide the Group with a guarantor who will compensate the Group for any loss upon their non-performance. The costs of CDMA handsets under the above contractual arrangements are treated as deferred customer acquisition costs, to the extent recoverable based on management periodic assessment, and are amortised over the contractual period (not exceeding 2 years) to match with the Group's minimum contract revenue.

For the year ended 31 December 2003, amortisation of these deferred customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB5,837 million (2002: RMB1,385 million), which was recorded in "selling and marketing" expenses. As of 31 December 2003, the carrying amount of unamortised deferred customer acquisition costs of contractual CDMA subscribers totaled approximately RMB4,447 million (2002: RMB5,983 million), with approximately RMB536 million (2002: RMB509 million) recorded in "prepayment and other current assets" (for contract period within 1 year) and with approximately RMB3,911 million (2002: RMB5,474 million) recorded in "other assets" (for contract period over 1 year) (see Note 23).

As of 31 December 2003, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB2,366 million and RMB153 million (2002: RMB2,625 million and RMB150 million) respectively.

21. PROPERTY, PLANT AND EQUIPMENT, NET

	The Group						
	2003						2002
	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	10,355,012	102,924,638	4,671,149	947,561	19,419,349	138,317,709	96,074,270
Additions	177,588	295,748	304,702	—	18,028,869	18,806,907	19,365,121
Acquisition of Unicom New Century	—	—	—	—	—	—	23,330,775
Acquisition of Unicom New World	1,256,443	8,531,911	169,789	43,497	2,104,818	12,106,458	—
Transfer from CIP	1,788,019	15,137,290	467,503	121,982	(17,514,794)	—	—
Sale of Guoxin Paging	(449,606)	(10,939,104)	(721,200)	(14,647)	(296,496)	(12,421,053)	—
Disposals	(23,501)	(729,047)	(397,167)	(43,614)	—	(1,193,329)	(452,457)
End of year	13,103,955	115,221,436	4,494,776	1,054,779	21,741,746	155,616,692	138,317,709
Representing:							
At cost	10,733,182	115,221,436	4,494,776	1,054,779	21,741,746	153,245,919	135,614,629
At valuation	2,370,773	—	—	—	—	2,370,773	2,703,080
	13,103,955	115,221,436	4,494,776	1,054,779	21,741,746	155,616,692	138,317,709
Accumulated depreciation and impairment:							
Beginning of year	1,067,005	27,665,564	1,667,089	416,875	14,547	30,831,080	20,325,835
Charge for the year	579,600	14,461,239	787,652	146,780	—	15,975,271	10,850,681
Impairment losses	—	526,030	—	—	2,018	528,048	—
Sale of Guoxin Paging	(119,255)	(8,190,816)	(451,275)	(10,366)	(2,258)	(8,773,970)	—
Disposals	(2,703)	(640,671)	(362,354)	(42,857)	—	(1,048,585)	(345,436)
End of year	1,524,647	33,821,346	1,641,112	510,432	14,307	37,511,844	30,831,080
Net book value:							
End of year	11,579,308	81,400,090	2,853,664	544,347	21,727,439	118,104,848	107,486,629
Beginning of year	9,288,007	75,259,074	3,004,060	530,686	19,404,802	107,486,629	75,748,435

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

	The Company			
	2003			2002
	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
Cost:				
Beginning of year	8,454	6,819	15,273	12,847
Additions	52,179	101	52,280	2,426
End of year	60,633	6,920	67,553	15,273
Accumulated depreciation:				
Beginning of year	3,400	5,426	8,826	3,999
Charge for the year	4,212	1,494	5,706	4,827
End of year	7,612	6,920	14,532	8,826
Net book value:				
End of year	53,021	—	53,021	6,447
Beginning of year	5,054	1,393	6,447	8,848

As of 31 December 2003, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB1,431 million (2002: RMB4,164 million) have been included in construction-in-progress.

For 2003, interest of approximately RMB604 million (2002: RMB423 million) was capitalised to construction-in-progress.

As of 31 December 2003, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB303 million and RMB61 million respectively (2002: RMB348 million and RMB77 million).

Land use rights and buildings of the Group as of 31 March 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB8.80 million for 2003 (2002: RMB8.80 million). The revaluation deficit was charged to the income statement during the year ended 31 December 2000. As of 31 December 2003, for these land use right and buildings stated at revalued amounts, their carrying amount would have been approximately RMB1,783 million (2002: RMB2,032 million) had they been carried at cost less accumulated depreciation.

As of 31 December 2003, net book value of telecommunications equipment held under finance leases amounted to approximately RMB147 million (2002: RMB159 million).

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

Impairment of assets for the Paging Business:

Management conducts an impairment assessment at each balance sheet date to identify whether the carrying values of the property, plant and equipment may be impaired. In 2003, the Group conducted such re-assessment of the recoverable amount of the paging assets based on the best estimates of the discounted net future cash flows expected to be generated from the Paging Business in the future years. Management has made key assumptions and estimations on the appropriate discount rate adopted (8% per annum), the period covered by the cash flow forecast, the impact of the continuous decline of traditional paging business, the future loss of subscribers, the expected trend in average revenue per subscriber, as well as incremental cash flows arising from new paging businesses and the effects of the adoption of cost reduction plans. All these assumptions and estimations are made based on historical trends adjusted for the current market situation (including physical conditions of these assets) and the forecast of the future development of new value-added paging businesses.

Based on the updated analysis and the worsening trend of the decline of the traditional paging business in the first half of 2003, despite the continuous growth of new value-added paging businesses, the Group expected that the related incremental future cash inflows to be generated from these new paging services could unlikely offset the effects of the rapid decline of the traditional paging business in future. Consequently, based on the latest estimate of the discounted future net cash flows expected to arise from the continuing operations of the Paging Business, after considering the unexpected rapid decline of the traditional paging business in the first half of 2003, the Group concluded that the carrying amount of paging assets as at 30 June 2003 had exceeded their expected recoverable amounts. Accordingly, the Group has recorded an additional impairment loss for property, plant and equipment of the Paging Business amounting to approximately RMB528 million for the year ended 31 December 2003 (2002: Nil).

In addition, the Group has also recognised losses on disposal of property, plant and equipment of approximately RMB50 million for the year ended 31 December 2003 (2002: RMB82 million).

22. GOODWILL

	The Group	
	2003 RMB'000	2002 RMB'000 As restated (Note 3(a))
Cost:		
Goodwill arising from acquisition of Unicom New Century	2,284,749	2,284,749
Goodwill arising from acquisition of Unicom New World	1,144,957	–
Other goodwill	–	525,431
	3,429,706	2,810,180
Less: Accumulated amortisation	(114,238)	(321,712)
Impairment losses for other goodwill	–	(202,697)
	3,315,468	2,285,771

22. GOODWILL (continued)

Goodwill arising from the acquisitions of Unicom New Century and Unicom New World represented the excess of purchase consideration over the fair value over the seperately identifiable net assets acquired (see Note 4). The amortisation charge of goodwill arising from acquisition of Unicom New Century amounted to approximately RMB114,238,000 for the year ended 31 December 2003 (2002: Nil).

Prior to 2002, other goodwill represented the excess of purchase consideration over the fair value of the separately identifiable assets acquired by Guoxin Paging in respect of (i) certain local Paging Businesses during its restructuring in 1998; and (ii) minority interests in the provincial subsidiaries of Guoxin Paging. The amortisation charge of goodwill for the year ended 31 December 2003 amounted to approximately RMB1,022,000 (2002: RMB23,414,000). As of 31 December 2003, all the goodwill related to the Paging Business has been fully amortised.

23. OTHER ASSETS

		The Group	
	Note	2003 RMB'000	2002 RMB'000
Interconnection facilities		613,622	568,099
Other		1,588,839	869,558
		2,202,461	1,437,657
Less: Accumulated amortisation		(1,162,464)	(680,101)
		1,039,997	757,556
Prepaid rental and leased line		897,783	786,503
Deferred customer acquisition costs of contractual CDMA subscribers	20(a)	3,911,650	5,474,164
		5,849,430	7,018,223

For the year ended 31 December 2003, amortisation of other assets, excluding deferred customer acquisition costs of contractual CDMA subscribers and prepaid rental and leased line, amounted to approximately RMB294,762,000 (2002: RMB381,629,000).

24. INVESTMENT SECURITIES

	The Group	
	2003 RMB'000	2002 RMB'000
Unlisted equity securities in the PRC, at cost	–	111,863
Less: Provision for impairment losses	–	(6,215)
	–	105,648

As of 31 December 2003, the Group did not hold any investment securities.

25. INVESTMENT IN SUBSIDIARIES

	The Company	
	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	55,241,000	45,564,109

During 2003, the Company acquired the entire issued share capital of Unicom New World (BVI) Limited, which holds the entire equity interests in Unicom New World. The acquisition became effective on 31 December 2003.

In addition, the Company has contributed cash of RMB6,427,513,000 to CUCL as additional investment (2002: RMB17,464,520,000) in 2003.

As of 31 December 2003, the details of the Company's subsidiaries were as follows:

Name	Place and date of incorporation and legal entity	Percentage of equity interests held: Direct	Percentage of equity interests held: Indirect	Issued and fully paid capital RMB'000	Principal activities
China Unicom Corporation Limited	The PRC, 21 April 2000, limited liability company	100.00%	–	45,042,057	Telecommunications operation
Unicom New Century (BVI) Limited	British Virgin Islands, 23 October 2002, limited liability company	100.00%	–	12	Investment holding
Unicom New Century Telecommunications Co., Ltd.	The PRC, 16 July 2002, limited liability company	100.00%	–	328,936	Telecommunications operation
Unicom New World (BVI) Limited	British Virgin Islands, 5 November 2003, limited liability company	100.00%	–	1	Investment holding
Unicom New World Telecommunications Co., Ltd.	The PRC, 4 November 2003, limited liability company	–	100.00%	2,054,770	Telecommunications operation

Amounts due to a subsidiary included in current liability of the Company's balance sheet are unsecured, non-interest bearing and repayable on demand.

26. PAYABLES AND ACCRUED LIABILITIES

	Note	The Group		The Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payables to contractors and equipment suppliers		11,789,366	13,703,912	–	–
Accrued expenses		1,417,750	1,139,645	15,220	714
Payables to telecommunications products suppliers		1,346,784	2,395,928	–	–
Customer deposits		1,198,812	784,156	–	–
Salary and welfare payables		494,794	775,668	–	10,068
Other	(a)	850,914	1,012,652	45,101	81,099
		17,098,420	19,811,961	60,321	91,881

Note:

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

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

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Less than six months	12,253,057	14,887,342	59,238	91,881
Six months to one year	3,051,167	2,521,886	1,068	–
More than one year	1,794,196	2,402,733	15	–
	17,098,420	19,811,961	60,321	91,881

27. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.54% to 5.31% per annum for 2003 (2002: 4.54% to 5.56% per annum).

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

	The Group				
	Balance at year end RMB'000	Weighted average interest rate at year end per annum	Maximum amount outstanding during the year RMB'000	Average amount outstanding during the year* RMB'000	Weighted average interest rate during the year** per annum
31 December 2003					
— secured	520,000				
— unsecured	10,455,199				
	10,975,199	5.22%	10,975,199	10,060,850	5.15%
31 December 2002					
— secured	209,000				
— unsecured	8,937,500				
	9,146,500	5.06%	9,146,500	8,117,750	5.39%

* *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 2003, short-term bank loans of approximately RMB70 million (2002: RMB463 million) were guaranteed by Unicom Group.

As of 31 December 2003, short-term bank loans of approximately RMB520 million (2002: RMB209 million) were secured by the future service fee revenue to be generated by the cellular operations.

28. LONG-TERM BANK LOANS

	Interest rates and final maturity	The Group 2003 RMB'000	The Group 2002 RMB'000	The Company 2003 RMB'000	The Company 2002 RMB'000
RMB denominated bank loans	Fixed interest rate ranging from 4.44% to 5.76% (2002: 4.54% to 6.24%) per annum with maturity through 2009 (2002: maturity through 2008) (Note (a))				
– secured		10,622,366	24,627,646	–	–
– unsecured		26,994,612	18,518,021	–	–
		37,616,978	43,145,667	–	–
USD denominated bank loans	Floating interest rate of USD LIBOR plus interest margin of 0.28% to 0.44% per annum with maturity through 2010 (Note (b))	5,793,690	–	5,793,690	–
Less: Current portion		(7,197,877)	(5,459,505)	–	–
		36,212,791	37,686,162	5,793,690	–

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

	The Group 2003 RMB'000	The Group 2002 RMB'000	The Company 2003 RMB'000	The Company 2002 RMB'000
Balances due:				
– not later than one year	7,197,877	5,459,505	–	–
– later than one year and not later than two years	15,549,832	4,825,581	–	–
– later than two years and not later than five years	18,837,560	32,581,222	4,138,290	–
Thereafter	1,825,399	279,359	1,655,400	–
	43,410,668	43,145,667	5,793,690	–
Less: Portion classified as current liabilities	(7,197,877)	(5,459,505)	–	–
	36,212,791	37,686,162	5,793,690	–

28. LONG-TERM BANK LOANS (continued)

(a) As of 31 December 2003, long-term bank loans denominated in RMB were secured by the following:

(i) Approximately RMB10,622 million (2002: RMB24,628 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. Included in these long-term bank loans, approximately RMB3,600 million (2002: RMB3,471 million) was also guaranteed by Unicom Group;

(ii) In addition to the above, approximately RMB8,004 million (2002: RMB9,164 million) of long-term bank loans were guaranteed by Unicom Group; and

(iii) Approximately RMB50 million (2002: Nil) of long-term bank loans were secured by restricted bank deposits.

(b) The Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD0.7 billion (the "Facility") in September 2003. The Facility was split into 3 tranches: (i) USD0.2 billion 3-year loan; (ii) USD0.3 billion 5-year loan; and (iii) USD0.2 billion 7-year loan and carried an interest rate of 0.28%, 0.35% and 0.44% over US dollar LIBOR per annum for each tranche respectively.

In October 2003, the Company and CUCL entered into an agreement to lend the above bank loans to CUCL with similar terms to finance the network constructions of CUCL.

29. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Total minimum lease payments under finance leases repayable:		
— not later than one year	25,926	17,284
— later than one year and not later than five years	34,659	34,659
— later than five years	145,753	154,395
	206,338	206,338
Less: Future finance charges	(81,184)	(88,243)
Present value of minimum obligations	125,154	118,095
Representing obligations under finance leases:		
— current liabilities	25,435	16,793
— non-current liabilities	99,719	101,302

	The Group	
	2003 RMB'000	2002 RMB'000
The present value of obligations under finance leases:		
— not later than one year	25,435	16,793
— later than one year and not later than five years	28,224	28,224
— later than five years	71,495	73,078
	125,154	118,095
Less: Portion classified as current liabilities	(25,435)	(16,793)
	99,719	101,302

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

30. SHARE CAPITAL

	The Company	
	2003 HK$'000	2002 HK$'000
Authorised:		
30,000,000,000 ordinary shares of HK$ 0.1 each	3,000,000	3,000,000

		The Company					
		2003			2002		
	Note	Number of shares ('000)	HK$'000	RMB equivalent '000	Number of shares ('000)	HK$'000	RMB equivalent '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	(a)	2,828,172	282,817	300,540	2,827,996	282,799	300,521
		12,553,172	1,255,317	1,331,390	12,552,996	1,255,299	1,331,371

Note: (a) Increase of 176,000 ordinary shares in year 2003 represents the ordinary shares in issued under the share option scheme (Note 31(e)).

31. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") and a fixed award pre-global offering share scheme ("Pre-Global Offering Share Option Scheme") on 1 June 2000 for the granting of share options to qualified employees, with terms amended on 13 May 2002 to comply with the requirements set out in the New Chapter 17 of the Listing Rules.

Movements in the number of share options outstanding during 2003 and 2002 are as follows:

	The Company	
	Number of share options involved	
	2003	2002
Balance, beginning of year	69,868,600	33,840,600
Granted	105,956,000	36,028,000
Exercised	(176,000)	—
Cancelled	(3,281,200)	—
Balance, end of year	172,367,400	69,868,600

31. SHARE OPTION SCHEME (continued)

As of 31 December 2003, information of outstanding options are summarised as follows:

Date of options granted	The period during which an option may be exercised	The price per share to be paid on exercise of options	Number of shares outstanding as of 31 December 2003	Number of shares outstanding as of 31 December 2002
Shares granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000 (Note (a))	22 June 2002 to 21 June 2010	HK$15.42	25,436,600	27,116,600
Shares granted under the Share Option Scheme:				
30 June 2001 (Note (b))	30 June 2001 to 21 June 2010	HK$15.42	6,508,000	6,724,000
2 August 2002 (Note (c))	10 July 2003 to 9 July 2008	HK$6.18	34,466,800	36,028,000
21 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.30	105,590,000	–
30 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.66	366,000	–
			172,367,400	69,868,600

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

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

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

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

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

31. SHARE OPTION SCHEME (continued)

(b) On 1 June 2000, the Company adopted 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 above) 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 are 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 is vested and exercisable commences from the date of grant of the options and will end by 22 June 2010.

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

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

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

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

- the nominal value of the shares;
- the closing price of the shares of the Stock Exchange as stated in the Stock Exchange's quotation sheets on the offer date in respect of the options; and
- the average closing price of the shares on the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date.

31. SHARE OPTION SCHEME (continued)

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

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

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

(iii) the vesting dates and exercisable periods of the options are as follows:

Vesting dates	Exercisable periods	Portions
10 July 2003	10 July 2003 to 9 July 2008	40%
10 July 2004	10 July 2004 to 9 July 2008	30%
10 July 2005	10 July 2005 to 9 July 2008	30%

(d) According to resolutions passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 21 May 2003 and 30 May 2003, a total of 105,590,000 share options and 366,000 share options were granted to eligible individuals (including directors, independent non-executive directors, non-executive directors, middle to senior management of the Group) respectively, under the amended Share Option Scheme in the following terms:

(i) an aggregate of 2,772,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price per share option is HK$4.30 and HK$4.66 respectively; and

(iii) the vesting dates and exercisable periods of the options are as follows:

Vesting dates	Exercisable periods	Portions
21 May 2004	21 May 2004 to 20 May 2009	40%
21 May 2005	21 May 2005 to 20 May 2009	30%
21 May 2006	21 May 2006 to 20 May 2009	30%

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

(e) Details of share options exercised during the year were as following:

Date of option exercised	Exercise price	Market value per Share at exercise date	Proceeds received	Number of shares involved
2 December 2003	HK$6.18	HK$7.50	HK$271,920	44,000
9 December 2003	HK$6.18	HK$7.45	HK$815,760	132,000
			HK$1,087,680	176,000

32. RELATED PARTY TRANSACTIONS

The table set forth below summarises the name of significant related parties and nature of relationship with the Company as of 31 December 2003:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate parent company
Unicom NewSpace Co., Ltd ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye")	A subsidiary of Unicom Group
Beijing Unicom Xingye Science and Technology Company Limited ("Beijing Xingye")	A subsidiary of Unicom Group
Unicom Import and Export Company Limited (" Unicom I/E Co")	A subsidiary of Unicom Group
China Unicom International Limited ("Unicom International")	A subsidiary of Unicom Group
Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon")	A subsidiary of Unicom Group
China Unicom Corporation Limited ("CUCL")	A subsidiary of the Company
Unicom New Century Telecommunications Corporation Limited ("Unicom New Century")	A subsidiary of the Company
Unicom New World Telecommunications Corporation Limited ("Unicom New World")	A subsidiary of the Company
Guoxin Paging Corporation Ltd. ("Guoxin Paging")	A subsidiary of Unicom Group
Unicom Guomai Communications Corporation Limited ("Unicom Guomai")	A subsidiary of Guoxin Paging

(a) Transactions with Unicom Group and its subsidiaries

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

	Note	2003 RMB'000	2002 RMB'000
Transactions with Unicom Group and its subsidiaries:			
Interconnection and roaming revenues	(i), (iii)	1,002,702	1,678,637
Interconnection and roaming charges	(ii), (iii)	316,271	331,179
Rental charges for premises, equipment and facilities	(iv)	17,936	17,817
Revenue for leasing of transmission line capacity	(v)	185,086	566,519
Sales of CDMA handsets	(vi)	64,929	487,850
Charges for the international gateway services	(vii)	8,631	15,626
Leasing of satellite transmission capacity	(viii)	26,400	35,153
Purchase of telecom cards	(ix)	1,186,500	877,221
CDMA network capacity lease rental	(x)	3,515,364	891,897
Commission expenses for sales agency services incurred for telecom cards	(xi)	16,175	18,497
Agency fee incurred for procurement of telecommunications equipment	(xii)	17,904	13,992
Rental for the PRC corporate office	(xiii)	–	7,598
Sales of telecommunications equipment	(xiv)	–	16,088

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

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

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

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

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

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

(vi) According to the sales of CDMA handsets agreement entered into between Unicom Group and Unicom Guomai on 1 January 2003, Unicom Group agreed to purchase CDMA mobile phone handsets from Unicom Guomai. The selling price is negotiated on an arm's length basis, which is not lower than the price sold by Unicom Guomai to independent third parties.

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

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

(ix) The Group signed a service agreement with Unicom Group to purchase SIM cards, UIM cards, Internet protocol phone cards and prepaid rechargeable calling 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.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group and its subsidiaries (continued)

(x) According to the CDMA Lease Agreement entered among CUCL, Unicom Group and Unicom New Horizon, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL covering 9 provinces and 3 municipalities. The lease fee per unit of capacity is calculated on a basis that if full capacity is leased, it would permit Unicom New Horizon to recover its investment in constructing the CDMA network in 7 years, together with an internal return of 8%. In addition, Unicom New Century and Unicom New World have also entered into CDMA capacity lease agreements with Unicom Group and Unicom New Horizon under the acquisition arrangements. The terms of the leasing arrangements are in all material respects the same as those contained in the CDMA Lease Agreement entered into by CUCL (see Note 33 for details).

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

(xii) The Group signed a service agreement with Unicom I/E Co., in which Unicom I/E Co. agreed to provide equipment procurement services to the Group. 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.

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

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

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

As part of the acquisition arrangements of Unicom New Century and Unicom New World, Unicom New Century and Unicom New World entered into PRC trademark license agreement with Unicom Group respectively. Unicom New Century and Unicom New World are granted the right to use these trade mark on a royalty free bases for an initial period of 10 years, renewable for another 10 years at Unicom New Century and Unicom New World's options.

(xvi) According to the Multiple Service Agreement (the "Agreement") signed between the Group and Unicom Paging Limited ("Unicom Paging", a subsidiary of Unicom Group) dated 1 August 2001, the Group and Unicom Paging agree to share the right to use the other party's logo and trademark in the paging business at no cost. In addition, the Agreement also specifies the basis of allocating common expenses incurred by each party for any shared resources and facilities. For the years ended 31 December 2003 and 2002, the amount of common expenses involved was insignificant.

32. RELATED PARTY TRANSACTIONS (continued)

(b) Amounts due from and to related parties/Unicom Group

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

(c) Amount due to Unicom Group

	The Group	
	2003 RMB'000	2002 RMB'000
Due to Unicom Group, beginning of year	562,633	947,934
Interconnection and roaming revenues	(1,002,702)	(1,678,637)
Interconnection and roaming charges	316,271	331,179
Revenue for leasing of transmission line capacity and premises and facilities	(185,086)	(566,519)
Rental charges for premises, equipment and facilities	17,936	17,817
Sales of CDMA mobile handsets	(64,929)	(487,850)
Charges for the international gateway services	8,631	15,626
Network construction costs paid by Unicom Group for CUCL of fixed-line networks	–	112,474
Settlement made during the year	224,158	1,032,163
Proceeds receivable from sale of Guoxin Paging	(450,000)	–
Amounts due to Unicom Group by Unicom New Century	–	838,446
Amounts due to Unicom Group by Unicom New World	1,005,135	–
Due to Unicom Group, end of year	432,047	562,633

(d) Short-term loans from Unicom Group

As of 31 December 2002, short-term loans from Unicom Group represented loans provided by Unicom Group to relevant branches of Unicom New Century to finance the operations of the Cellular Business. These loans were borrowed by Unicom Group from banks at the interest rate of 4.54%. These bank loans were identified as attributable to the relevant branches of Unicom New Century based on the amount of funds actually utilised by the relevant branches of Unicom New Century. The corresponding interest expenses were also charged to these relevant branches based on funds actually utilised. All these loans were guaranteed by Unicom Group. As of 31 December 2003, such loans have already been fully repaid by the Group.

(e) Bank loans guaranteed by Unicom Group

As of 31 December 2003, the Group had approximately RMB11,604 million (2002: RMB12,635 million) of long-term bank loans and approximately RMB70 million (2002: RMB463 million) of short-term bank loans guaranteed by Unicom Group.

33. LEASING OF CDMA NETWORK CAPACITY

In November 2001, CUCL entered into a CDMA capacity lease agreement (the "CDMA Lease Agreement") with Unicom Group and Unicom New Horizon. Pursuant to the CDMA Lease Agreement, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL covering 9 provinces and 3 municipalities.

Major terms of the CDMA Lease Agreement include the following:

- CUCL has the exclusive right to lease and operate the CDMA network capacity in the above regions;
- The term of the CDMA Lease Agreement is for an initial period of 1 year (the "Initial Lease Term"), renewable for further one year terms at the option of the CUCL;
- The lease fee per unit of capacity is calculated on a basis that if full capacity is leased, it would permit Unicom New Horizon to recover its investment in constructing the CDMA network in 7 years, together with an internal return of 8%;
- CUCL has the option to add or reduce the capacity leased by giving specified period of advance notice. There is no minimum requirement on the network capacity to be leased beyond the Initial Lease Term; and
- CUCL has the option to purchase the network assets. The acquisition price will be negotiated between CUCL and Unicom New Horizon, based on the appraised value of the network determined by an independent appraiser, provided that it will not exceed such price as would, add together with any lease payments made previously, enable Unicom New Horizon to recover its investment with an internal rate of return of 8%.

Commencement of the CDMA Lease Agreement was conditional upon, among others, the testing and initial acceptance and delivery of phase I of the CDMA network and the receipt of all necessary government approvals. Upon the fulfillment of all the conditions precedent to the commencement of the CDMA Lease Agreement, the Initial Lease Term commenced on 8 January 2002. This lease arrangement has been accounted for as an operating lease of the network capacities. On 8 January 2003, CUCL renewed the CDMA Lease Agreement with Unicom New Horizon for a further one year.

In addition, as part of the acquisition arrangements of Unicom New Century and Unicom New World, Unicom New Century and Unicom New World have also entered into CDMA capacity lease agreements with Unicom Group and Unicom New Horizon in November 2002 and November 2003 respectively. The terms of these leasing arrangements are in all material respects the same as those contained in the CDMA Lease Agreement entered into by CUCL as described above except for the leased capacity. Under these lease agreemtents, Unicom New Horizon agreed to lease the capacity of CDMA network to Unicom New Century covering 6 provinces, 2 autonomous regions and 1 municipality and to Unicom New World covering 6 provinces and 3 autonomous regions.

34. TRANSACTIONS WITH DOMESTIC CARRIERS

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

(a) *Transactions with domestic carriers*

The following is a summary of significant transactions with domestic carriers in the ordinary course of business:

	Note	2003 RMB'000	2002 RMB'000
Interconnection revenue	(i)	1,647,221	771,751
Interconnection charges	(i)	5,301,792	2,666,186
Leased line revenue	(ii)	218,974	–
Leased line charges	(ii)	722,684	680,508

Note:

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

(ii) Leased line charges are paid or payable to domestic carriers by the Group for the leasing of transmission lines. At the same time, the Group leases transmission line to domestic carriers and leased line rental income represents the amount received or receivable from them. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.

34. TRANSACTIONS WITH DOMESTIC CARRIERS (continued)

(b) Amounts due from and to domestic carriers

	The Group	
	2003 RMB'000	2002 RMB'000
Amounts due from domestic carriers		
— Receivable for Interconnection revenue and leased line revenue	184,729	260,578
— Less: Provision for doubtful debts	(116)	(49,116)
	184,613	211,462
Amounts due to domestic carriers		
— Payables for interconnection charges and leased lines changes	778,841	1,123,580
Long-term payable due to domestic carriers		
— Payables for obligations under finance leases:		
— Current portion of obligations under finance leases	25,435	16,793
— Obligations under finance leases	99,719	101,302
	125,154	118,095

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

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

35. SEGMENT INFORMATION

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

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

- GSM Business — the provision of GSM telephone and related services;
- CDMA Business — the provision of CDMA telephone and related services, through a leasing arrangement of CDMA network capacities from Unicom New Horizon (see Note 33);
- Data and Internet Business — the provision of domestic and international data, Internet and other related services;
- Long Distance Business — the provision of domestic and international long distance and other related services; and
- Paging Business — the provision of paging and related services.

The Paging Business was sold to Unicom Group on 31 December 2003 (see Note 5).

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

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

35. SEGMENT INFORMATION (continued)

(a) Business segments

	2003								2002							
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000
Operating revenue (Turnover):																
Usage fee	29,072,249	11,671,523	2,443,610	1,148,040	—	—		44,335,422	20,274,987	2,231,050	2,069,415	1,223,051	—	—		25,798,503
Monthly fee	7,042,299	3,488,411	9,085	—	612,999	—		11,152,794	4,169,129	713,483	9,478	—	1,912,786	—		6,804,876
Interconnection revenue	1,926,907	607,830	361,514	365,724	1,654	—		3,263,629	1,709,771	184,296	348,248	664,302	113,123	—		3,019,740
Leased lines rental	—	—	420,433	701,549	—	—		1,121,982	—	—	274,274	873,054	—	—		1,147,328
Other revenue	2,262,156	855,754	202,441	57,835	788,400	—		4,166,586	1,234,038	96,518	91,624	5,316	135,279	—		1,562,775
Total services revenue	40,303,611	16,623,518	3,437,083	2,273,148	1,403,053	—		64,040,413	27,387,925	3,225,347	2,793,039	2,765,723	2,161,188	—		38,333,222
Sales of telecommunications products	862,777	1,956,452	7,814	14,914	753,955	—		3,595,912	721,100	423,057	5,631	13,258	1,080,257	—		2,243,303
Total operating revenue from external customers	41,166,388	18,579,970	3,444,897	2,288,062	2,157,008	—		67,636,325	28,109,025	3,648,404	2,798,670	2,778,981	3,241,445	—		40,576,525
Intersegment revenue	41,057	41,725	1,826,222	866,728	230,075	—	(3,005,807)	—	—	—	559,888	682,423	731,009	—	(1,973,320)	—
Total operating revenue	41,207,445	18,621,695	5,271,119	3,154,790	2,387,083	—		67,636,325	28,109,025	3,648,404	3,358,558	3,461,404	3,972,454	—		40,576,525
Operating expenses:																
Leased lines and network capacities	(339,410)	(3,576,498)	(294,888)	(78,027)	(80,084)	—	48,525	(4,320,382)	(205,374)	(932,994)	(221,028)	(93,079)	(136,024)	—	5,244	(1,583,255)
Interconnection charges	(5,478,520)	(1,684,749)	(732,210)	(752,521)	—	—	2,727,207	(5,920,793)	(3,386,592)	(279,440)	(408,843)	(555,470)	—	—	1,400,705	(3,229,640)
Depreciation and amortisation	(13,117,906)	(306,754)	(1,305,239)	(419,346)	(1,144,922)	(5,650)	(85,476)	(16,385,293)	(8,322,549)	(100,902)	(697,188)	(687,420)	(1,442,836)	(4,829)		(11,255,724)
Personnel	(2,605,475)	(660,894)	(525,726)	(333,051)	(415,554)	(33,846)		(4,574,546)	(1,780,173)	(281,243)	(396,150)	(290,977)	(555,261)	(31,414)		(3,335,218)
Selling and marketing	(4,605,600)	(9,141,877)	(883,495)	(405,904)	(126,018)	—	6,059	(15,156,835)	(2,663,531)	(2,126,475)	(651,594)	(305,505)	(238,640)	—	4,797	(5,980,948)
General, administrative and other expenses	(5,571,493)	(1,363,927)	(761,405)	(462,081)	(916,418)	(37,550)	489	(9,112,385)	(3,370,938)	(506,715)	(590,531)	(501,657)	(597,427)	(65,726)	1,144	(5,631,850)
Cost of telecommunications products sold	(765,926)	(2,177,168)	(22,250)	(4,231)	(907,697)	—	225,227	(3,652,045)	(744,640)	(408,791)	(11,299)	(5,049)	(1,626,157)	—	559,730	(2,236,206)
Total operating expenses	(32,484,330)	(18,911,867)	(4,525,213)	(2,455,161)	(3,590,693)	(77,046)		(59,122,279)	(20,473,797)	(4,636,560)	(2,976,633)	(2,439,157)	(4,596,345)	(101,969)		(33,252,841)
Operating profit (loss)	8,723,115	(290,172)	745,906	699,629	(1,203,610)	(77,046)		8,514,046	7,635,228	(988,156)	381,925	1,022,247	(623,891)	(101,969)		7,323,684
Loss on sale of discontinued operation (Guoxin Paging)							(663,279)	(663,279)								—
								7,850,767								7,323,684
Interest income	58,006	7,013	4,589	3,400	9,099	106,734	(15,808)	173,033	48,503	4,146	4,525	5,516	17,374	390,218		470,282
Finance costs	(1,754,050)	(32,078)	(62,791)	(56,946)	(5,238)	(40,727)	15,808	(1,936,022)	(1,287,443)	(47,979)	(72,864)	(48,789)	(8,348)	(9,018)		(1,474,441)
Other (expense) income, net	(21,609)	3,680	(4,741)	1,488	39,868	(10,615)		8,071	(46,889)	(10)	(2,562)	(152)	24,993	8,261		(16,359)
Segment profit (loss) before taxation and minority interest	7,005,462	(311,557)	682,963	647,571	(1,159,881)	(21,654)		6,095,849	6,349,399	(1,031,999)	311,024	978,822	(589,872)	287,492		6,303,166
Profit before taxation								6,095,849								6,303,166
Taxation								(1,888,381)								(1,720,205)
Profit after taxation								4,207,468								4,582,961
Minority interests								9,629								15,252
Profit attributable to shareholders								4,217,097								4,598,213
Other information:																
Provision for doubtful debts	1,116,523	397,810	125,676	75,870	34,008	—		1,749,887	802,914	42,050	70,922	46,124	9,979	—		971,989
Impairment loss recognised in the income statement	—	—	—	—	528,038	—		528,038	—	—	—	38,797	—	—		38,797
Capital expenditures for segment assets (1)	8,906,166	—	4,128,985	2,555,252	35,126	4,129,690		19,755,219	7,899,442	—	3,247,507	3,343,330	208,460	4,236,036		18,934,775

	As of 31 December 2003							As of 31 December 2002							
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000
Total segment assets	104,430,531	4,717,167	8,611,873	19,061,967	63,234,534	(50,218,142)	149,837,930	97,888,808	5,724,427	7,081,704	13,876,837	8,410,871	58,016,167	(41,370,609)	149,628,205
Total segment liabilities	56,837,496	6,561,772	3,975,293	6,918,025	5,929,854	—	80,222,440	67,666,655	5,788,290	2,785,794	3,826,692	2,205,343	136,639	—	82,409,413

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

35. SEGMENT INFORMATION (continued)

(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 and other assets) are situated in mainland China, as the Group's principal activities are conducted in the PRC. For the year ended 31 December 2003, substantially all capital expenditures were incurred to acquire assets located in the mainland China. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

(c) Discontinued operation

The subsidiary that carried out the Paging Business, Guoxin Paging, was disposed of on 31 December 2003, which has been reported as a discontinued operation (see Note 5).

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group include bank balances and cash, short-term bank deposits, trading securities, accounts receivable, prepayment and other current assets, amounts due from related parties and domestic carriers. Financial liabilities of the Group include accounts payable and accrued liabilities, bank loans, lease payables and amounts due to related parties and domestic carriers.

Bank balances and cash and short-term bank deposits denominated in foreign currencies as summarised below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as of 31 December 2003.

	The Group					
	2003			2002		
	Original currency '000	Exchange rate	RMB equivalent RMB'000	Original currency '000	Exchange rate	RMB equivalent RMB'000
Bank balances and cash						
– denominated in HK$	19,126	1.06	20,382	1,103,579	1.06	1,170,787
– denominated in US dollars	81,888	8.27	677,764	785,328	8.27	6,497,476
Sub-total			698,146			7,668,263
Short-term deposits:						
– denominated in HK$	–	1.06	–	1,697,414	1.06	1,800,786
– denominated in US dollars	110,285	8.27	912,794	365,047	8.27	3,020,321
Sub-total			912,794			4,821,107
Total			1,610,940			12,489,370

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group did not have and does not believe it will have any difficulty in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China. The carrying amounts of the Group's bank balances and cash, short term bank deposits, other current financial assets and liabilities approximated their fair value as of 31 December 2003 due to the nature or short maturity of those instruments.

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

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

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

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

37. CONTINGENCIES AND COMMITMENTS

(a) *Capital commitments*

As of 31 December 2003 and 2002, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group			
	2003			2002
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Total RMB'000
Authorised and contracted for	523,031	6,188,907	6,711,938	6,262,219
Authorised but not contracted for	210,040	985,122	1,195,162	2,636,155
Total	733,071	7,174,029	7,907,100	8,898,374

As of 31 December 2003, approximately RMB83 million (2002: RMB385 million) of capital commitment outstanding was denominated in US dollars (equivalent to US$10 million (2002: US$47 million)).

37. CONTINGENCIES AND COMMITMENTS (continued)

(b) *Operating lease commitments*

As of 31 December 2003 and 2002, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	The Group				
	2003				2002
	Land and buildings RMB'000	Equipment RMB'000	CDMA network capacities RMB'000	Total RMB'000	Total RMB'000
Leases expiring :					
– not later than one year	476,663	144,830	6,528,530	7,150,023	3,631,575
– later than one year and not later than five years	1,130,260	260,860	–	1,391,120	1,413,864
– later than five years	837,825	116,092	–	953,917	1,131,167
Total	2,444,748	521,782	6,528,530	9,495,060	6,176,606

As of 31 December 2003 and 2002, the Company had total future aggregate minimum operating lease payments under operating leases as follows:

	The Company	
	2003	2002
	Total office premises RMB'000	Total RMB'000
Leases expiring :		
– not later than one year	4,778	7,647
– later than one year and not later than five years	7,384	6,066
– later than five years	–	–
Total	12,162	13,713

(c) *Commitment to purchase CDMA handsets*

As of 31 December 2003, the Group committed to purchase CDMA handsets amounted to approximately RMB920 million (2002: RMB870 million).

38. EVENTS AFTER BALANCE SHEET

CUCL signed an agreement with 11 financial institutions for a long-term syndicated loan of USD0.5 billion (the "Facility") on 25 February 2004 to finance working capital and network construction expenditure. The Facility was repayable in 3 years and carried an interest rate of 0.40% over US dollar LIBOR per annum . CUCL has utilised USD0.2 billion of the Facility on 25 March 2004.

39. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to reflect the retrospective adjustment of deferred tax assets in accordance with SSAP 12 adopted in current year.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 March 2004.