Supplemental Financial Information for North American Shareholders

The consolidated financial statements of the Group prepared under HK GAAP differ in certain material respects from those prepared under generally accepted accounting principles in the United States of America ("US GAAP"). Significant differences between HK GAAP and US GAAP are summarised below:

(A) EFFECT OF THE ACQUISITIONS OF ENTITIES UNDER COMMON CONTROL

Under HK GAAP, the Group has adopted the purchase method of accounting to account for the acquisitions of Unicom New Century and Unicom New World (the "Acquisitions") on 31 December 2002 and 2003 respectively. Under the purchase method, the operating results of these acquired subsidiaries have been included in the consolidated income statements of the Group after the Acquisitions were effective. The excess of the purchase consideration over the fair values of the separately indentifiable net assets acquired has been recorded as goodwill, which is amortised using the straight-line method over a period of 20 years.

As the Group, Unicom New Century and Unicom New World were under the common control of Unicom Group prior to the Acquisitions, these Acquisitions are considered as a transfer of businesses under common control and the acquired assets and liabilities are accounted for at historical cost under US GAAP. Furthermore, the consolidated financial statements prepared under US GAAP for all periods presented have been retroactively restated as if Unicom New Century and Unicom New World were always part of the Group. The cash considerations paid by the Company are treated as capital distribution in the respective years of the acquisitions. Goodwill arising from the acquisitions and the related amortisation of goodwill recognised under HK GAAP have been reversed under US GAAP. Transaction costs, which are capitalised as part of the cost of investment under HK GAAP, have been expensed in full under US GAAP.

(B) EFFECT OF THE DISPOSAL OF ENTITY UNDER COMMON CONTROL

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

Under US GAAP, the sale of Guoxin Paging to Unicom Group is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value (see Note (G)). In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separately from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as "Discontinued operation - Loss from discontinued operation" under US GAAP.

(C) REVENUE AND COSTS RECOGNITION

Under HK GAAP, upfront non-refundable revenue, such as connection fee, is recognised when received upon completion of activation services. Under US GAAP, in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", upfront non-refundable revenue and the related direct incremental costs incurred are deferred and recognised over the estimated customer service periods. The expected customer service period for the Celluler Business is estimated based on the expected stabilised churn rates. On this basis, the weighted average customer service period based on current estimation considering the prevailing market environment is approximately 4 years (2002: 6 years). The effect of the change of accounting estimate in 2003 was to increase the net profit and earnings per share by approximately RMB70 million and RMB0.006 respectively for the year ended 31 December 2003.

(D) EMPLOYEE HOUSING SCHEMES

Prior to the establishment of Guoxin Paging and CUCL, both China Telecom (the previous owner of Guoxin Paging prior to its restructuring into the Group) and Unicom Group provided housing benefits to qualified employees of the Group to enable them to purchase living quarters at a discount. Under HK GAAP, housing benefits incurred and borne by China Telecom and Unicom Group for these employees were not recognised by the Group. Under US GAAP, the amount of such housing benefits is being recognised as part of the Group's operating expenses over the estimated average service life of the participating employees. The corresponding credits are being accounted for as capital contributions.

(E) DEFERRED TAXATION

Upon the adoption of SSAP 12 in 2003 under HK GAAP, which has been retroactively applied to all periods presented, there is no longer a difference in accounting for deferred taxation between HK GAAP and US GAAP. The remaining adjustments related to deferred taxation represent the deferred tax effects of other US GAAP adjustments.

(F) REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

Under HK GAAP, revaluation surplus in relation to buildings is recorded by the Group as part of the property, plant and equipment. Thereafter, depreciation is provided based on the revalued amounts. Under US GAAP, all property, plant and equipment are stated at historical cost less accumulated depreciation, and prepaid land use rights are stated at the unamortised prepaid amount as part of other assets.

(G) IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

The carrying amounts of property, plant and equipment and goodwill under HK GAAP are reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the assets discounted to their present value. A subsequent increase in the recoverable amount is written back to the income statement when circumstances and events that led to the write-down or write-off cease to exist.

(G) IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS (continued)

(i) Goodwill

Under HK GAAP, goodwill is amortised using the straight-line method over the expected beneficial lives of the acquired businesses. Prior to 1 January 2002, the US GAAP treatment was consistent with this. In addition, for the year ended 31 December 2001, although the projected amount of future undiscounted cash flows of certain Paging assets was sufficient to recover the net carrying sufficient amount of goodwill as of 31 December 2001 under US GAAP, the amount of discounted cash flows was not sufficient under HK GAAP. Consequently, for the year ended 31 December 2001, the impairment provision for goodwill recognised under US GAAP was lower than that recognised under HK GAAP by approximately RMB62,948,000.

Starting from 1 January 2002, under US GAAP, upon the adoption of Statements of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), the Group no longer amortises goodwill but, rather, assesses the goodwill of each identified reporting unit for impairment annually. The adoption of SFAS 142 has resulted in a cumulative effect of accounting change of approximately RMB42,175,000 (net of tax RMB20,773,000) on 1 January 2002 and has been reflected in the condensed income statement for the year ended 31 December 2002 under US GAAP. The subsequent annual impairment assessment of goodwill as at 31 December 2003 and 2002 did not result in any material difference in the fair values. Prior to 1 January 2002, impairment accounting of goodwill under US GAAP was prescribed by Statements of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121").

(ii) Long-lived assets

On 1 January 2002, the Company has adopted Statements of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which supercedes SFAS 121 and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ". SFAS 144 retains the previous accounting for the impairment of long-lived assets to be held and used in operation as prescribed under SFAS 121, but also establishes more restrictive criteria that must be met to classify long-lived assets as held-for sale, and differentiates between long-lived assets that are disposed of by sale from those disposed of other than by sale. SFAS 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported.

Under SFAS 144, long-lived assets excluding goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets, which is determined based on the estimated future discounted net cash flows expected to be generated by the asset held for continuous use. Assets impaired or to be disposed of are reported at the lower of the carrying amounts or fair values less costs to sell, which result in a new cost basis for the impaired assets. This new cost basis is not to be adjusted for subsequent recoveries in value.

(G) IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS (continued)

(ii) Long-lived assets (continued)

Based on the above assessment performed and taking into account of the adoption of SFAS 144, no material differences arose in respect of the timing and the amount of impairment for equipment for the years ended 31 December 2003 and 2002. For the year ended 31 December 2001, although the projected amount of future undiscounted net cash flows was sufficient to recover the net carrying amount of long-lived assets as of 31 December 2001 under US GAAP, the amount of future discounted net cash flows was not sufficient under HK GAAP. Consequently, for the year ended 31 December 2001, the impairment provision for equipment recognised under US GAAP were lower than that recognised under HK GAAP by approxmately RMB12,382,000.

For the year ended 31 December 2003, as described in Note (B) above, the disposal of Guoxin Paging has been treated as a transfer of business between entities under common controls. For this kind of distribution of a business to the owner in a spin-off, a re-assessment of the impairment of the long-lived assets of the business is required while they are classified as "held and used" and prior to the spin-off. An impairment loss would be recognized when the carrying amounts of the long-lived assets of the business as of the effective date of disposal exceeded their fair values. After considering the above impairment assessment, any difference between the disposal consideration and the new carrying values of assets and liabilities of the business is treated contribution by (or distribution to) the owner, as appropriate. Accordingly, an additional provision of impairment loss of the Paging assets amounting to approximately RMB608 million was recorded under US GAAP as at the effective date of the disposal of Guoxin Paging. There was no adjustment to the shareholders' equity since the disposal consideration approximated the new carrying values of the net assets of Guoxin Paging, after taking into consideration the additional impairment provision described above.

(H) SHARE OPTION SCHEME

Under HK GAAP, the proceeds received from the exercise of the share options granted under the fixed award amended Share Option Scheme and Pre-Global Offering Share Option Scheme are to be recognised as an increase to capital upon the exercise of the share options as stated in Note 31 of the financial statements.

Under US GAAP, the Company applies Accounting Principles Board Opinion No. 25 ("APB 25") to account for its fixed award stock options issued to employees. Under APB 25, compensation expense is recorded in the amount of the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the options, which is amortised over the vesting period of the option. Since the exercise price of the options granted did not exceed the market price of the underlying stock on the date of grant, no compensation cost for options has been recognised in the reconciliation of net profit to US GAAP. In accordance with SFAS 123, as further amended by Statement of Financial Accounting Standards, No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure"("SFAS 148") which is effective for the year ended 31 December 2002, the required pro forma information to be disclosed is set forth below.

	2003	2002
Net profit:		
As reported (RMB'000)	4,728,423	5,028,416
Less: Total stock-based employee compensation expense determined under fair value based method (RMB'000)	(86,855)	(90,288)
Pro forma (RMB'000)	4,641,568	4,938,128
Basic earnings per share:		
As reported (RMB)	0.377	0.401
Pro forma (RMB)	0.370	0.393
Diluted earnings per share:		
As reported (RMB)	0.376	0.401
Pro forma (RMB)	0.369	0.393
Basic earnings per ADS:		
As reported (RMB)	3.767	4.006
Pro forma (RMB)	3.698	3.934
Diluted earnings per ADS:		
As reported (RMB)	3.762	4.006
Pro forma (RMB)	3.693	3.934

(I) INVESTMENT IN EQUITY SECURITIES

Under HK GAAP, negotiable equity securities including ownership interest in an enterprise, which are intended to be held on a continuing basis, are classified as investment securities and are stated at cost. The carrying amounts of investment securities are written down to reflect any diminution in value expected to be other than temporary. Provisions against the carrying value are reversed when the circumstances and events that led to the write-downs or write-offs cease to exist and if there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Under US GAAP, equity securities which are not marketable and do not have readily determinable fair values are classified as other investments, which are stated at cost less impairment in value other than temporary. If an impairment in value is judged to be other than temporary, the cost of the investment is written down to its recoverable amount as a new cost basis and the amount of the write-down is included in the income statement. The new cost basis is not changed for subsequent recoveries in value.

During the years ended 31 December 2003 and 2002, there was no recovery in the value of investments in equity securities under HK GAAP.

(J) NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"); Emerging Issues Task Force ("EITF") reached a final consensus on EITF Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" that addresses certain aspects of a vendor's accounting for multiple revenue-generating arrangements ("EITF Issue 00-21"); and FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which issued to revise the original FASB Interpretation No. 46.

(a) SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is effective for contracts entered into or modified after 30 June 2003. The adoption of SFAS 149 did not have a material effect on the consolidated financial statements of the Group.

(J) NEW ACCOUNTING PRONOUNCEMENTS (continued)

(b) In November 2002, the Emerging Issues Task Force reached a final consensus on EITF Issue 00-21, which addresses certain aspects of a vendor's accounting for multiple revenue-generating arrangements. This Issue addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. Factors to consider in this assessment include whether any of the deliverables are independently functional or sufficiently separable, and if so, whether there is any sufficient evidence of related fair values to account for them separately. Related provisions under EITF Issue 00-21 do not change otherwise applicable revenue recognition criteria. EITF Issue 00-21 also provides additional guidance with respect to (i) the effect of certain customer rights due to vendor nonperformance on the recognition of revenue allocated to delivered units of accounting; (ii) the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the vendor; and (iii) the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of this Issue become effective for fiscal periods beginning after 15 June 2003, with early application permitted. The Group is currently reviewing the provisions of EITF Issue 00-21 and does not expect the adoption of this Issue to have a material effect on its results of operations and financial position.

(c) FIN 46R provides guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights. Under FIN 46R, an entity is defined as a variable interest entity ("VIE") if the entity (1) lacks sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties, (2) has equity owners who cannot make significant decisions about the entity's operations, and/or (3) has equity owners that do not absorb the entity's expected losses or returns. FIN 46R requires a variable interest holder to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive a majority of the returns of the VIE, or both. This party is considered the primary beneficiary of the VIE. Furthermore, an enterprise with a variable interest in a VIE shall treat the variable interests in that same VIE held by its related parties as its own interests. In the case where two or more related parties hold variable interests in the same VIE, then the party, within the related party group, that is most closely associated with the variable interest entity is the primary beneficiary. For VIEs created after 31 January 2003, FIN 46R is effective immediately. For VIEs that qualify as special purpose entities, as defined in FIN 46R, the Group must adopt provisions of FIN 46R on 1 January 2004, and for all other VIEs created before 31 January 2003, the Group must adopt FIN 46R on 31 December 2004.

The Company has adopted FIN 46R as of 31 December 2003. As of 31 December 2003, the Company has identified only one VIE in which it holds a variable interest. The name of the VIE is Unicom New Horizon and the form of variable interest held by the Company is a series of lease renewal options. Unicom New Horizon is a 100% owned subsidiary of the Company's controlling shareholder, from which the Group leases its CDMA assets on a capacity-used basis under operating leases, subject to indefinite renewal options. The Company has concluded that its controlling shareholder is the primary beneficiary of Unicom New Horizon, since it absorbs all of Unicom New Horizon's expected losses (through its ownership of 100% of Unicom New Horizon's equity and an unconditional guarantee of 100% of Unicom New Horizon debt) and is indirectly associated with the operations of the leased CDMA assets through its majority ownership of the Company. As such, the adoption of FIN 46R did not have any impact to the Group's consolidated financial statements.

Differences between HK GAAP and US GAAP which affect net profit and earnings per shares of the Group are summarised below:

	Note	2003 RMB'000	2002 RMB'000 As restated
Net profit under HK GAAP	(1)	4,217,097	4,598,213
Impact of US GAAP adjustments:	(2)		
– Effect of acquisition of Unicom New Century	(A)	–	648,006
– Transaction costs for the acquisition of Unicom New Century	(A)	–	(109,221)
– Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	88,794	–
– Effect of acquisition of Unicom New World	(A)	350,947	(118,879)
– Transaction costs for the acquisition of Unicom New World	(A)	(49,378)	–
– Deferral of upfront non-refundable revenue	(C)	(1,417,474)	(860,490)
– Amortisation of upfront non-refundable revenue	(C)	1,223,938	526,982
– Deferral of direct incremental cost	(C)	1,417,474	776,387
– Amortisation of direct incremental cost	(C)	(1,071,450)	(435,385)
– Employee housing benefits	(D)	(18,532)	(18,532)
– Reversal of depreciation for revalued property, plant and equipment	(F)	7,485	7,485
– Difference in provision for impairment and disposal loss of Paging Business	(B)	55,078	—
– Reversal of differences in provision for impairment loss of equipment upon depreciation and disopsal	(G)	(3,538)	(3,538)
– Deferred tax effects of US GAAP adjustments	(E)	(72,018)	59,563
– Effect of accounting change: Transitional adjustment of goodwill impairment upon the adoption of SFAS 142 (net of tax RMB20,773,000)	(G)	–	(42,175)
Net profit as restated under US GAAP	(2)	4,728,423	5,028,416

Differences between HK GAAP and US GAAP which affect shareholders' equity of the Group are summarised below:

	Note	The Group 2003 RMB'000	The Group 2002 RMB'000 As restated
Shareholders' equity under HK GAAP	(1)	69,615,490	66,652,535
Impact of US GAAP adjustments:	(2)		
– Effect of acquisition of Unicom New Century	(A)	(2,052,554)	(2,052,554)
– Transaction costs for the acquisition of Unicom New Century	(A)	(109,221)	(109,221)
– Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	88,794	–
– Effect of acquisition of Unicom New World	(A)	(946,370)	497,989
– Transaction costs for the acquisition of Unicom New World	(A)	(49,378)	–
– Deferred upfront non-refundable revenue	(C)	(5,953,520)	(4,536,046)
– Accumulated amortisation of upfront non-refundable revenue	(C)	2,646,464	1,422,526
– Deferred direct incremental cost	(C)	5,037,375	3,619,901
– Accumulated amortisation of direct incremental cost	(C)	(2,088,332)	(1,016,882)
– Reversal of revaluation surplus of property, plant and equipment:			
– Cost	(F)	(82,531)	(176,853)
– Accumulated depreciation	(F)	15,351	30,296
– Reversal of revaluation deficit of fixed assets:			
– Cost	(F)	–	28,000
– Accumulated depreciation	(F)	–	(2,716)
– Differences in cost and depreciation relating to provision for impairment loss of equipment	(G)	–	8,844
– Differences in provision for impairment loss of goodwill	(G)	–	62,948
– Cumulative effect of accounting change: Transitional adjustment of goodwill impairment upon the adoption of SFAS 142	(G)	–	(62,948)
– Non-recognition of recovery of impairment provision of investment securities and associated companies	(I)	–	(17,948)
– Deferred tax effects of US GAAP adjustments	(E)	(209,065)	(132,875)
– Recognition of deferred tax assets in relation to the loss carry forward from a subsidiary	(1), (3)	–	107,299
– Valuation allowance	(1), (3)	–	(107,299)
Shareholders' equity as restated under US GAAP	(2)	65,912,503	64,214,996

Note:

(1) Under HK GAAP, 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. Upon the adoption of 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 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. Detail description was set forth in Note 3(a) to the financial statements.

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.

Under HK GAAP, 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.

(2) In accordance with the US GAAP accounting as described in Note (A) above, the financial statements under US GAAP for prior periods presented have been retroactively restated to include Unicom New Century and Unicom New World since the beginning of the earliest period presented.

(3) A valuation allowance was recorded against the deferred tax assets in relation to the loss carried forward from a subsidiary prior to 2001 because it is highly uncertain as to whether sufficient future net profit can be generated by the subsidiary to utilise the tax loss within the five-year carried forward period allowed under tax laws of the PRC at that time. The operating loss carry forward expires in various years through 2003, if not utilised. Starting from 2001, with the approval of the state tax bureau, loss incurred by this subsidiary can be set off against taxable net profit of the Group. As of 31 December 2003, deferred tax assets in relation to the loss carried forward from a subsidiary related to the Paging Business was disposed together with the sale of Guoxin Paging.

The following summarised the combining results of operations and the financial positions for the separate entities on a combined basis as of and for the years ended 31 December 2003 and 2002, restated to reflect the impact of the effects of the sale of Guoxin Paging and Acquisitions of entities under common control, which is accounted for at historical cost under US GAAP with prior periods restated as if the entities were always combined, and other differences between HK GAAP and US GAAP.

	The Group (before the acquisition of Unicom New World)	Unicom New World	Elimination	The Group (after the acquisition of Unicom New World)
	RMB'000	RMB'000	RMB'000	RMB'000
As of/for the year ended 31 December 2003				
Results of operations:				
Operating revenue (Turnover)	65,055,706	8,116,512	(1,213,965)	71,958,253
Net profit from continuing operations	5,719,316	348,762	2,185	6,070,263
Net loss from discontinued operation	(1,341,840)	–	–	(1,341,840)
Net profit	4,377,476	348,762	2,185	4,728,423
Basic earnings per share (RMB)	0.349	–	–	0.377
Financial positions (Note (a)):				
Non-current assets	115,104,870	13,064,550	–	128,169,420
Current assets	20,941,127	2,278,122	(975,965)	22,243,284
Total assets	136,045,997	15,342,672	(975,965)	150,412,704
Non-current liabilities	34,908,769	5,684,779	–	40,593,548
Current liabilities	37,478,355	7,404,263	(975,965)	43,906,653
Total liabilities	72,387,124	13,089,042	(975,965)	84,500,201
Net assets	63,658,873	2,253,630	–	65,912,503
As of/for the year ended 31 December 2002				
Results of operations:				
Operating revenue (Turnover)	45,800,199	5,238,615	(623,566)	50,415,248
Net profit from continuing operations	5,611,683	(116,694)	(2,185)	5,492,804
Net loss from discontinued operation	(422,213)	–	–	(422,213)
Effect of change in accounting policy	(42,175)	–	–	(42,175)
Net profit	5,147,295	(116,694)	(2,185)	5,028,416
Basic earnings per share (RMB)	0.410	–	–	0.401
Financial positions:				
Non-current assets	118,644,755	12,571,854	–	131,216,609
Current assets	31,921,101	2,153,980	(655,797)	33,419,284
Total assets	150,565,856	14,725,834	(655,797)	164,635,893
Non-current liabilities	41,673,150	8,025,450	–	49,698,600
Current liabilities	44,609,442	6,200,210	(653,612)	50,156,040
Total liabilities	86,282,592	14,225,660	(653,612)	99,854,640
Minority interests	566,257	–	–	566,257
Net assets	63,717,007	500,174	(2,185)	64,214,996

Note (a): As described in Note (B) above, Guoxin Paging was sold to Unicom Group effective on 31 December 2003. As a result, the balance sheet of the Group did not include the financial positions of Guoxin Paging as of 31 December 2003.

The following are the condensed income statement, changes in shareholders' equity and cash flow information for the years ended 31 December 2003 and 2002, condensed balance sheets information as of 31 December 2003 and 2002, and additional financial information as of and for the years ended 31 December 2003 and 2002, restated to reflect the effects of the sale of Guoxin Paging and Acquisition of entities under common control which is accounted for at historical cost with retroactive restatement under US GAAP.

CONDENSED INCOME STATEMENT

	Note	2003 RMB'000	2002 RMB'000
Operating revenue (Turnover)	(g)	71,958,253	50,415,248
Operating expenses:			
Leased lines and network capacities	(g)	(4,725,932)	(2,102,165)
Interconnection charges	(g)	(6,119,138)	(3,953,324)
Depreciation and amortisation		(16,746,044)	(14,147,811)
Personnel		(4,644,904)	(3,854,314)
Selling and marketing	(g)	(16,701,625)	(8,118,722)
General, administrative and other expenses	(g)	(9,195,354)	(7,282,553)
Cost of telecommunications products sold	(g)	(3,124,558)	(1,203,367)
Total operating expenses		61,257,555	(40,662,256)
Operating profit from continuing operations		10,700,698	9,752,992
Interest income		169,521	476,353
Finance costs		(2,319,034)	(2,765,835)
Other expenses, net		(29,927)	(45,557)
Profit from continuing operations before taxation, discontinued operation and effect of change in accounting policy		8,521,258	7,417,953
Taxation	(c)	(2,450,995)	(1,925,149)
Net profit before discontinued operation and effect of change in accounting policy		6,070,263	5,492,804
Discontinued operation			
– Loss from discontinued operation		(1,762,222)	(578,389)
– Add: related tax impact		420,382	156,176
Loss from discontinued operation, net of tax		(1,341,840)	(422,213)
Net profit before effect of change in accounting policy		4,728,423	5,070,591
Effect of accounting change:			
– Transitional adjustment of goodwill impairment upon the adoption of SFAS 142		–	(62,948)
– Less: related tax impact	(c)	–	20,773
		–	(42,175)
Net profit		4,728,423	5,028,416

CONDENSED INCOME STATEMENT (continued)

	Note	2003	2002
Basic earnings per share (RMB):			
Earnings per share before discontinued operation and change in accounting policy	(1)	0.484	0.438
Loss from discontinued operation, net of tax		(0.107)	(0.034)
Effect of change in accounting policy, net of tax		–	(0.003)
Net profit	(1)	0.377	0.401
Diluted earnings per share (RMB):			
Earnings per share before discontinued operation and effect of change in accounting policy	(2)	0.483	0.438
Loss from discontinued operation, net of tax		(0.107)	(0.034)
Effect of change in accounting policy, net of tax		–	(0.003)
Net profit	(2)	0.376	0.401
Basic earnings per ADS (RMB):			
Earnings per share before discontinued operation and effect of change in accounting policy	(1), (3)	4.836	4.376
Loss from discontinued operation, net of tax		(1.069)	(0.336)
Effect of change in accounting policy, net of tax		–	(0.034)
Net profit	(1), (3)	3.767	4.006
Diluted earnings per ADS (RMB):			
Earnings per share before discontinued operation and effect of change in accounting policy	(2), (3)	4.830	4.376
Loss from discontinued operation, net of tax		(1.068)	4.376
Effect of change in accounting policy, net of tax		–	(0.034)
Net profit	(2), (3)	3.762	4.006

Note:

(1) Basic earnings per share before or after discontinued operation and effect of change in accounting policy for the years ended 31 December 2003 and 2002 were computed by dividing the net profit before or after discontinued operation and effect of change in accounting policy for the financial years under US GAAP by the weighted average number of ordinary shares in issue during the years.

(2) Diluted earnings per share before or after discontinued operation and effect of change in accounting policy for the years ended 31 December 2003 and 2002 were computed by dividing the net profit before or after discontinued operation and effect of change in accounting policy under US GAAP by the weighted average number of ordinary shares in issue during the years, after adjusting for the effects of the dilutive potential ordinary shares. All potential dilutive shares arose from share options granted (i) under the amended Pre-Global Offering Share Option Scheme; and (ii) under the amended Share Option Scheme as described in Note 31. For 2003, all potential dilutive ordinary shares arose from additional share options granted in 2003 under the amended Share Option Scheme (see Note 31), which if converted to ordinary shares would decrease earnings per share. For 2002, there was no dilution of earnings per share after taking into account of 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.

(3) Basic and diluted earnings per ADS before or after discontinued operation and effect of change in accounting policy were computed by multiplying the earnings per share by 10, which is the number of shares represented by each ADS.

CONDENSED BALANCE SHEET

	Note	The Group 2003 RMB'000	The Group 2002 RMB'000
Non-current assets:			
Property, plant and equipment, net	(a)	118,124,070	118,787,064
Goodwill		–	1,022
Other assets	(b)	9,920,469	11,673,174
Deferred tax assets	(c)	124,881	663,835
Investment securities		–	90,919
Investment in associated companies		–	595
Total non-current assets		128,169,420	131,216,609
Current assets:			
Amounts due from Unicom Group		–	111,206
Current portion of deferred tax assets	(c)	873,849	1,291,650
Amounts due from related parties		263,414	872,048
Amounts due from domestic carriers		184,613	215,545
Prepayments and other current assets	(d)	3,147,777	2,800,140
Inventories		2,169,354	3,532,674
Account receivable		8,960,506	6,663,071
Less: Provision for doubtful debts		(3,488,959)	(1,895,770)
Accounts receivable, net		5,471,547	4,767,301
Trading securities		–	173,939
Short-term bank deposits		912,794	4,825,205
Bank balances and cash		9,219,936	14,829,576
Total current assets		22,243,284	33,419,284
Current liabilities:			
Dividend payable		–	8,448
Payables and accrued liabilities	(e)	17,098,420	22,310,930
Amounts due to Unicom Group		432,047	562,633
Amounts due to related parties		108,891	294,642
Amounts due to domestic carriers		778,841	1,201,277
Current portion of obligations under finance leases		25,435	16,793
Current portion of long-term bank loans	(f)	7,197,877	6,737,684
Taxes payable		623,857	1,307,471
Advances from customers		6,666,086	7,043,442
Short-term loans from Unicom Group		–	1,276,220
Short-term bank loans		10,975,199	9,396,500
Total current liabilities		43,906,653	50,156,040
Net current liabilities		(21,663,369)	(16,736,756)
Total assets less current liabilities		106,506,051	114,479,853

CONDENSED BALANCE SHEET (continued)

	Note	The Group 2003 RMB'000	The Group 2002 RMB'000
Financed by:			
Shareholders' equity		65,912,503	64,214,996
Minority interests		–	566,257
Non-current liabilities:			
Long-term bank loans	(f)	36,212,791	45,519,525
Obligations under finance leases		99,719	101,302
Deferred revenue		4,277,761	4,065,265
Other long-term liabilities		3,277	12,508
Total non-current liabilities		40,593,548	49,698,600
Total non-current liability and shareholders' equity		106,506,051	114,479,853

CONDENSED STATEMENT OF CHANGES IN EQUITY

	RMB'000
Balance at 1 January 2002, as previously reported before adjusting for the acquisition of Unicom New World	61,783,297
Adjustment for the acquisition of Unicom New World	100,784
Balance at 1 January 2002, as adjusted for the acquisition of Unicom New World	61,884,081
Net profit for the year ended 31 December 2002	5,028,416
Deemed capital contribution from owner for employee housing benefits	18,532
Contribution from owner	2,083,967
Deemed capital distribution relating to the payment to Unicom Group for the transfer of Unicom New Century	(4,800,000)
Balance at 31 December 2002, as adjusted for the acquisition of Unicom New World	64,214,996
Net profit for the year ended 31 December 2003	4,728,423
Deemed capital contribution from owner for employee housing benefits	18,532
Contribution from owner	1,673,693
Deemed capital distribution relating to the payment to Unicom Group for the transfer of Unicom New World	(3,200,000)
Distribution to owner	(268,999)
Dividend paid	(1,255,300)
Exercise of share options	1,158
Balance at 31 December 2003	65,912,503

CONDENSED CASH FLOW STATEMENT

	The Group 2003 RMB'000	The Group 2002 RMB'000
Net cash inflows (outflows) from:		
Operating activities	25,991,589	18,214,554
Investing activities	(20,272,030)	(10,256,078)
Financing activities	(11,379,199)	(12,772,555)
Net decrease in cash and cash equivalents	(5,659,640)	(4,814,079)
Cash and cash equivalents, beginning of year	14,829,576	19,643,655
Cash and cash equivalents, end of year	9,169,936	14,829,576
Interest paid (net of amount capitalised)	(2,322,892)	(2,697,644)

SUPPLEMENTAL INFORMATION

Payables to equipment suppliers for construction-in-progress during 2003 decreased by approximately RMB3,799 million (2002: approximately RMB1,502 million).

(a) Property, Plant and Equipment, net

	The Group 2003 RMB'000	The Group 2002 RMB'000
Buildings	12,800,363	11,276,660
Telecommunication equipment	116,315,865	119,200,606
Office furniture, fixtures and others	4,494,776	5,098,221
Leasehold improvements	1,054,779	1,163,482
Construction-in-progress	21,741,746	21,559,101
	156,407,529	158,298,070
Less: Accumulated depreciation	(38,283,459)	(39,511,006)
	118,124,070	118,787,064

(b) Other Assets

	The Group	
	2003 RMB'000	2002 RMB'000
Inter-connection facilitates	613,622	641,894
Deferred direct incremental costs	6,465,485	4,911,833
Other	1,588,839	956,739
	8,667,946	6,510,466
Less: Accumulated amortisation	(3,860,502)	(2,332,426)
	4,807,444	4,178,040
Prepaid rental and leased line	1,201,375	1,296,741
Deferred customer acquisition costs of contractual CDMA subscribers	3,911,650	6,198,393
	9,920,469	11,673,174

(c) Taxation

Detailed description of the assessment basis of income tax liability of the Group including CUCL and Unicom New Century were set forth in Note 14 to the financial statements.

The income tax liability of Unicom New World was assessed as follows:

(i) For 2003 and 2002, Unicom Group was assessed for PRC enterprise income tax liability under the relevant tax rules and regulations applicable to state-owned enterprises at the statutory rate of 33% on a consolidation basis as a single entity. The tax provision for Unicom New World was determined on a separate return basis using the same tax policy applicable to Unicom Group. Under this basis, the tax liabilities attributable to Unicom New World were determined as if it were assessed for income tax separately from Unicom Group; and

(ii) Various provincial branches and autonomous regions of Unicom New World were granted a preferential treatment by local tax authorities to assess their enterprise income tax at a tax rate of 15% for 2003 (2002: 15%). The remaining provincial branches, or autonomous regions, were assessed at the standard tax rate of 33%.

The components of income tax are as follows:

	2003 RMB'000	2002 RMB'000
Provision for PRC enterprise income tax of the estimated taxable profit for the year	1,078,030	1,578,591
Deferred taxation	952,583	169,609
	2,030,613	1,748,200

(c) Taxation (continued)

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

	2003	2002
PRC		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses:		
– Housing benefits	–	0.1
– Personnel expenses	–	1.7
– Selling and marketing expenses	–	0.2
– Other	0.6	1.0
Additional expenses for tax deductible purposes:		
– Interest on loans from CCF joint ventures	(0.3)	(0.9)
– Depreciation expenses	(0.1)	(0.2)
– Monetary housing benefits	(0.8)	–
Effect of preferential tax rates	(2.1)	(3.2)
Investment tax credits for domestic equipment	–	(4.6)
Increase in opening deferred tax asset resulting from an increase in tax rate	(2.1)	–
Write-off of deferred tax assets previously recognised for Guoxin Paging	1.8	–
Effective PRC income tax rate	30.0%	27.1%
Effective HK income tax rate	–	–
Total overall effective income tax rate	30.1%	25.9%

Effect of preferential tax rates is as follows:

	2003	2002
Aggregate amount (RMB in millions)	143	209
Per share effect (RMB)	0.011	0.017

The movement of deferred tax assets is as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance, beginning of year	1,955,485	2,125,094
Deferred taxation charged to income statement	(952,583)	(190,382)
Deferred taxation relating to sale of Guoxin Paging	(4,172)	—
Deferred taxation relating to effect of change in accounting policy	—	20,773
Balance, end of year	998,730	1,955,485

(c) Taxation **(continued)**

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

	The Group 2003 RMB'000	The Group 2002 RMB'000
Non-current deferred tax assets:		
Net amount of deferral and amortisation of upfront non-refundable revenue and incremental costs	887,269	1,013,328
Interest on loans from CCF joint ventures	256,673	287,998
Loss arising from terminations of CCF Arrangements	236,249	312,117
Operating loss of a subsidiary prior to 2001 (Note 1)	–	107,299
Provision for impairment loss of property, plant and equipment	4,875	110,075
Provision for impairment loss of goodwill	–	27,620
Provision for doubtful debts of Paging Business	–	38,673
Write-off of other assets	7,563	17,662
Amortisation of retirement benefits	18,549	37,379
Additional depreciation deductible for tax purpose	101,267	171,091
Differences in tax basis of the residual value of the property, plant and equipment	7,608	19,634
Other	24,497	110,453
	1,544,550	2,253,329
Less: Valuation allowance	–	(107,299)
	1,544,550	2,146,030
Non-current deferred tax liabilities:		
Net amount of deferral and amortisation of upfront non-refundable revenue and incremental costs	(1,087,288)	(1,185,131)
Change of depreciation period	(28,268)	(82,978)
Capitalised interest already deducted for tax purposes	(304,113)	(214,086)
	(1,419,669)	(1,482,195)
Net non-current deferred tax assets	124,881	663,835
Current portion of deferred tax assets		
Income tax on advances from customers for telephone cards	261,467	693,830
Write-down of inventory to net realisable value	15,905	31,261
Provision for doubtful debts of Cellular Business	534,839	543,691
Monetary housing benefits	56,826	–
Other	4,812	22,868
	873,849	1,291,650
Total	998,730	1,955,485

Note (1): Refer to Note (3) of shareholders' equity reconciliation table.

(d) Prepayment and Other Current Assets

	The Group 2003 RMB'000	The Group 2002 RMB'000
Prepaid rental	233,461	85,185
Deposits and prepayments	1,624,874	1,190,597
Interest receivables	4,872	37,780
Advances to employees	164,487	120,408
Deferred customer acquisition costs of contractual CDMA subscribers	535,521	531,551
Others	584,562	834,619
	3,147,777	2,800,140

(e) Payables and Accrued Liabilities

	The Group 2003 RMB'000	The Group 2002 RMB'000
Payables to contractors and equipment suppliers	11,789,366	15,588,133
Accrued expenses	1,417,750	1,271,852
Payables to telecommunications products suppliers	1,346,784	2,636,330
Customer deposits	1,198,812	916,585
Salary and welfare payables	494,794	842,394
Other	850,914	1,055,636
	17,098,420	22,310,930

(f) Long-term Bank Loans

	Interest rate and final maturity	The Group 2003 RMB'000	The Group 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)		
— secured		10,622,366	31,516,112
— unsecured		26,994,612	20,741,097
		37,616,978	52,257,209
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	5,793,690	—
		43,410,668	52,257,209
Less: Current portion		(7,197,877)	(6,737,684)
		36,212,791	45,519,525

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

	The Group 2003 RMB'000	The Group 2002 RMB'000
Balances due:		
— 2003	—	6,737,684
— 2004	7,197,877	6,656,391
— 2005	15,549,832	25,647,532
— 2006	11,700,060	10,085,831
— 2007	3,020,930	2,838,410
— 2008	4,116,570	291,361
— Thereafter	1,825,399	—
	43,410,668	52,257,209
Less: Portion classified as current liabilities	(7,197,877)	(6,737,684)
	36,212,791	45,519,525

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

(i) Approximately RMB10,622 million (2002: RMB31,516 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: RMB4,931 million) was also guaranteed by Unicom Group;

(ii) Approximately RMB8,004 million (2002: RMB10,497 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.

(g) Related Party Transactions

	2003 RMB'000	2002 RMB'000
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenues	158,486	34,167
Interconnection and roaming charges	52,294	50,132
Rental charges for premises, equipment and facilities	17,936	21,601
Revenue for leasing of transmission line capacity	10,717	12,557
Sales of CDMA handsets	23,484	6,129
Charges for the international gateway services	8,631	15,626
Leasing of satellite transmission capacity	26,400	35,153
Purchase of telecom cards	1,326,641	1,391,811
CDMA network capacity lease rental	3,909,148	1,299,286
Commission expenses for sales agency services incurred for telecom cards	16,175	18,497
Agency fee incurred for procurement of telecommunications equipment	20,705	19,634
Rental for the PRC corporate office	–	7,598
Sales of telecommunications equipment	–	16,088

Detail description of the nature and terms of the related party transactions are set forth in Note 32 of this financial statements.

MOVEMENT OF SIGNIFICANT PROVISIONS

(a) Provision for deferred taxation valuation allowance was analysed as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance, beginning of year	107,299	107,299
Provision for the year	–	–
Disposal of Guoxin Paging	(107,299)	–
Balance, end of year	–	107,299

(b) Provision for doubtful debts was analysed as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance, beginning of year	1,895,770	1,370,027
Provision for the year	2,016,106	1,395,699
Written-off for the year	(358,253)	(869,956)
Disposal of Guoxin Paging	(64,664)	–
Balance, end of year	3,488,959	1,895,770

(c) Other than those described in the above notes, there was no other significant movement of provisions for the years ended 31 December 2003 and 2002.

COMPREHENSIVE INCOME STATEMENT

According to SFAS No.130 "Reporting of Comprehensive Income", certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. For the years ended 31 December 2003 and 2002, apart from the net profit, there was no other comprehensive income which should be included in the statement of comprehensive income.

SHARE OPTION SCHEME

As disclosed in Note 31, information relating to the share options outstanding under the amended Pre-Global Offering Share Option Scheme and Share Option Scheme as of 31 December 2003 and 2002 is as follows:

	2003		2002	
	Options outstanding	Weighted average exercise price HK$	Options outstanding	Weighted average exercise price HK$
Outstanding, beginning of year	69,868,600	10.66	33,840,600	15.42
Granted during the year	105,956,000	4.30	36,028,000	6.18
Exercised during the year	(176,000)	6.18	–	–
Cancelled during the year	(3,281,200)	12.26	–	–
Outstanding, end of year	172,367,400	6.72	69,868,600	10.66

As of 31 December 2003, 45,947,320 share options (2002: 33,840,600 share options) were exercisable and the weighted average exercise price was HK$6.72 (2002: HK$15.42). Also, as of 31 December 2003, weighted average remaining contractual life of the options outstanding was approximately 5.5 years (2002: approximately 6.5 years).

The SFAS 123 method of accounting is based on several assumptions and should not be viewed as indicative of the operation of the Company in future periods. The estimated fair value of each option granted to the employees of the Group on the date of grant is estimated to be HK$1.26 and HK$2.48 for 2003 and 2002 respectively using the Black-Scholes option pricing method with the assumptions as follows:

	2003	2002
Estimated fair value (in HK dollars)	HK$1.26	HK$2.48
Risk free interest rate	3%	3%
Expected life (in years)	3	5
Expected dividend yield	2%	0%
Volatility	35%	41%

Had the compensation costs for the plans been determined based on the estimated fair value at the grant dates for awards under the plan consistent with the method of SFAS 123, the Group's net profit and earnings per share under US GAAP on a pro forma basis for the years ended 31 December 2003 and 2002 are disclosed in the aforementioned Note H.