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 and long distance 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 2003 and 2004 respectively:

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 its ultimate parent company, China United Telecommunications Corporation (a state owned enterprise established in the PRC, hereinafter referred as "Unicom Group"). For details of this acquisition, please refer to Note 4.

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.

Acquisition of China Unicom International Limited ("Unicom International")

In 2004, the Company acquired the entire equity interests in Unicom International.

Unicom International was a limited liability company established in Hong Kong on 24 May 2000 to engage in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. Unicom International's wholly-owned US subsidiary, China Unicom USA Corporation ("Unicom USA"), carries wholesale business of voice traffic between US and mainland China. Unicom International was a wholly-owned subsidiary of China Unicom (Hong Kong) Group Limited (a wholly-owned subsidiary of Unicom Group, hereinafter referred to as "Unicom Group (HK)").

Pursuant to the acquisition agreement signed between Unicom Group (HK) and the Company dated 28 July 2004, the Company agreed to acquire the entire equity interests in Unicom International from Unicom Group (HK) by a cash consideration of HK$37,465,996 (equivalent to approximately RMB39,740,000, including direct costs of acquisition). After all the conditions to the acquisition were satisfied and cash consideration was settled by the Company, the acquisition of Unicom International became effective in September 2004. 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 International in September 2004 amounted to approximately RMB47 million. The excess of the fair value of the identifiable assets and liabilities over purchase consideration has been recorded as negative goodwill amounting to RMB7.73 million, which is recognised in the consolidated income statement of the Group using the straight-line method over the remaining weighted average useful life of the acquired identifiable non-monetary assets (approximately 6 years). As the effective date of this acquisition was September 2004, accordingly, the operating results of Unicom International for the period from the acquisition effective date to 31 December 2004 have been included in the consolidated income statement of the Group in year 2004.

1. Organisation and Principal Activities (continued)

On 30 July 2004, China Unicom Corporation Limited (hereinafter referred to as "CUCL", a direct wholly-owned subsidiary of the Company) combined with Unicom New Century Telecommunications Corporation Limited ("Unicom New Century") and obtained the revised business license. After the combination, Unicom New Century was legally dissolved and CUCL extended its Cellular Business in 21 provinces.

On 15 October 2004, the Company together with Unicom International set up and incorporated China Unicom (Macau) Company Limited ("Unicom Macau") in Macau Special Administrative Region of the PRC ("Macau"). The Company effectively held 100% in the entire issued capital of Unicom Macau.

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 it's 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, 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 Institute of Certified Public Accountants ("HKICPA"). 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 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.

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

As of 31 December 2004, the current liabilities of the Group and the Company had exceeded the current assets by approximately RMB28.3 billion and RMB0.1 billion, respectively. The decrease in working capital was mainly attributable to the use of short-term bank deposits to repay long-term bank loans. Taking into account of available financing and continuous net cash inflow from operating results, the Group and the Company have sufficient working capital for present requirements. As a result, the financial statements of the Group and the Company for the year ended 31 December 2004 have been prepared under the going concern basis.

Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as new HKFRSs, which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented. The Group has already commenced an assessment of the impact of these new HKFRSs, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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.

3. Principal Accounting Policies (continued)

(b) Group accounting (continued)

(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.

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

3. Principal Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(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	3 – 15 years	3%
Office furniture, fixtures and other	4 – 14 years	3%

(iv) Construction-in-progress

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

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

(v) Impairment and gains or loss on 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.

3. Principal Accounting Policies (continued)

(e) Goodwill/Negative 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.

Negative goodwill represents the excess of the fair values of the Group's share of the net identifiable assets and liabilities of the acquired subsidiary over the purchase consideration at the date of acquisition. Negative goodwill is recognised using the straight-line method over the remaining weighted average useful life of acquired identifiable non-monetary assets.

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.

(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 subscribers 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) 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.

(h) 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)

(i) Accounts receivable and other receivables

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

(j) Inventories

Inventories, which principally comprise handsets, SIM cards, UIM cards 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.

(k) Advances from customers

Advances from customers are 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.

(l) 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 of assets 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 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)

(m) 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 4.54% to 5.73% for the year ended 31 December 2004 (2003: 4.44% to 5.76%).

(n) 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)

(o) 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 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.

(p) 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.

3. Principal Accounting Policies (continued)

(q) 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.

(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 29). The financial impact of the share options 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.

(r) 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.

(s) 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.

3. Principal Accounting Policies (continued)

(t) 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.

(u) 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.

(v) 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.

(w) 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 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.

The aforementioned acquisition of Unicom New World became effective on 31 December 2003 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 World as of 31 December 2003 amounted to approximately RMB2,104 million, the excess of purchase consideration over the fair value of 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 beneficial period of 20 years.

As the effective date of this acquisition was 31 December 2003, both the operating results and the financial position of Unicom New World have been included in the consolidated financial statements of the Group for the year ended 31 December 2004. However, the 2003 comparatives only reflected the financial position of Unicom New World in the consolidated balance sheet and excluded the operating results of Unicom New World in the consolidated income statement of the Group. For the year ended 31 December 2004, operating revenue and net profit of Unicom New World amounted to approximately RMB9,041 million and RMB415 million (2003: RMB8,135 million and RMB349 million) respectively.

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 CUCL.

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 was 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. For the year ended 31 December 2003, the operating revenue and loss after taxation of Guoxin Paging amounted to approximately RMB2,387 million and RMB1,404 million respectively.

Guoxin Paging subsequently changed its name to Unicom New Guoxin Telecommunications Corporation Limited (hereinafter referred to as "New Guoxin") on 29 April 2004.

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.

6. Operating Revenue (continued)

The major components of operating revenue are as follows:

GSM Business	Note	2004 RMB'000	2003 RMB'000
Usage fee	(i) (a)	**31,997,020**	29,072,249
Monthly fee	(ii)	**6,922,400**	7,042,299
Interconnection revenue	(iii)	**2,614,268**	1,926,907
Other revenue	(v)	**5,045,547**	2,262,156
Total GSM service revenue		**46,579,235**	40,303,611
CDMA Business			
Usage fee	(i) (a)	**16,164,333**	11,671,523
Monthly fee	(ii)	**4,638,024**	3,488,411
Interconnection revenue	(iii)	**927,288**	607,830
Other revenue	(v)	**2,489,957**	855,754
Total CDMA service revenue		**24,219,602**	16,623,518
Data and Internet Business			
Usage fee	(i) (b)	**2,685,083**	2,443,610
Monthly fee	(ii)	**—**	9,085
Interconnection revenue	(iii)	**131,371**	361,514
Leased lines rental	(iv)	**344,014**	420,433
Other revenue	(v)	**502,266**	202,441
Total Data and Internet service revenue		**3,662,734**	3,437,083
Long Distance Business			
Usage fee	(i) (b)	**879,281**	1,148,040
Interconnection revenue	(iii)	**454,383**	365,724
Leased lines rental	(iv)	**512,134**	701,549
Other revenue	(v)	**2,211**	57,835
Total Long Distance service revenue		**1,848,009**	2,273,148
Paging Business			
Monthly fee	(ii)	**—**	612,999
Interconnection revenue	(iii)	**—**	1,654
Other revenue	(v)	**—**	788,400
Total Paging service revenue		**—**	1,403,053
Total service revenue		**76,309,580**	64,040,413
Sales of telecommunications products		**3,022,031**	3,595,912
Total operating revenue		**79,331,611**	67,636,325

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 30(a) and 32(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, CDMA1X wireless data service and secretarial services to subscribers.

7. Profit before Taxation

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

After charging/(crediting):	Note	2004 RMB'000	2003 RMB'000
Share of losses from associated companies	10	—	2,275
Dividends from investment securities	10	—	(2,573)
Realised gains on trading securities	10	—	(12,045)
Unrealised gains on trading securities	10	—	(10,129)
Realised gains on investment securities	10	—	(13,268)
Interest income		(102,907)	(173,033)
Interest expense	9	2,316,318	2,523,512
Less: amounts capitalised in construction-in-progress	9	(647,851)	(604,137)
Total interest expenses	9	1,668,467	1,919,375
Depreciation:			
- Assets held under finance leases	20	111,473	12,154
- Other assets		18,116,132	15,963,117
Total depreciation	20	18,227,605	15,975,271
Amortisation of goodwill	21	171,184	115,260
Other amortisation	22	664,285	294,762
Amortisation of deferred customer acquisition costs of contractual CDMA subscribers	19(a)	6,120,737	5,836,587
Loss on disposal of property, plant and equipment	8(iv)	10,537	49,940
Auditors' remuneration		57,522	54,003
Operating lease expense:			
- Leased lines		809,202	805,018
- CDMA network capacities	30(a), 31	6,588,926	3,515,364
- Other leasing expense	8(iv)	1,042,020	882,671
Total operating lease expense		8,440,148	5,203,053
Provision for doubtful debts:			
- GSM Business		1,317,374	1,116,523
- CDMA Business		645,470	397,810
- Data and Internet Business		164,514	125,676
- Long Distance Business		64,462	75,870
- Paging Business		—	34,008
Total provision for doubtful debts	8(iv)	2,191,820	1,749,887

7. Profit before Taxation (continued)

After charging/(crediting):	Note	2004 RMB'000	2003 RMB'000
Cost of inventories		**3,440,826**	3,570,234
Write-down of inventories to net realisable value		**69,475**	47,101
Personnel:			
- Salaries and wages		**3,647,629**	3,676,168
- Contributions to defined contribution pension schemes	12	**244,397**	273,182
- Contributions to supplementary defined contribution pension schemes	12	**41,596**	39,854
- Special monetary housing benefits	13	**21,907**	109,210
- Contributions to other housing fund	13	**224,686**	170,614
- Other housing benefits	13	**345,885**	305,518
Total personnel		**4,526,100**	4,574,546
Additional provision for impairment of property, plant and equipment	8(iv)	**—**	528,048
Exchange losses, net	10	**7,657**	9,960

8. Operating Expenses

Major components of operating expenses are 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 Mobile Telecommunications Company Limited ("Unicom New Horizon") (see Notes 30(a), 31 and 32(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 etc.

8. Operating Expenses (continued)

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

	2004 RMB'000	2003 RMB'000
Operating lease rental expenses	**1,042,020**	882,671
Repair and maintenance expenses	**1,648,986**	1,387,466
Provision for doubtful debts	**2,191,820**	1,749,887
Loss on disposal of property, plant and equipment	**10,537**	49,940
Provisions for impairment of property, plant and equipment	**—**	528,048
Traveling, entertainment and meeting expenses	**1,322,438**	1,242,166
Power and water charges	**1,763,766**	1,313,099
Office expenses	**706,892**	749,080
Other	**1,761,782**	1,210,028
	10,448,241	9,112,385

9. Finance Costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans repayable over 5 years	**537,261**	124,105
Interest on bank loans repayable within 5 years	**1,750,209**	2,399,407
Interest element of finance leases	**28,848**	7,050
Less: Amounts capitalised in construction-in-progress	**(647,851)**	(604,137)
Total interest expenses	**1,668,467**	1,926,425
Bank charges	**19,951**	9,597
	1,668,418	1,936,022

10. Other Income, Net

	2004 RMB'000	2003 RMB'000
Share of losses from associated companies	**—**	(2,275)
Dividends from investment securities	**—**	2,573
Realised gains on trading securities	**—**	12,045
Unrealised gains on trading securities	**—**	10,129
Realised gains on investment securities	**—**	13,268
Compensation from vendors	**73,585**	—
Losses from exchange difference	**(7,657)**	(9,960)
Other	**30,062**	(17,709)
	95,990	8,071

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:

	2004 RMB'000	2003 RMB'000
Non-executive directors:		
Fees	1,594	1,594
Executive directors:		
Fees	—	—
Other emoluments:		
- Salaries, allowance and other allowances	9,242	9,352
- Pension benefits/pension scheme contributions	128	106
- Bonuses paid and payable	5,676	9,688
	15,046	19,146
	16,640	20,740

Non-executive directors' emoluments disclosed above include approximately RMB1,275,000 (2003: approximately RMB1,275,000) paid to independent non-executive directors.

During 2004, 4,020,000 (2003: 2,772,000) share options were granted to the directors under the amended Share Option Scheme approved by the independent non-executive directors on 20 July 2004 and 21 December 2004 respectively. See Notes 29(e) and (f) for the details of share options granted during the year.

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

	Number of directors	
(All amounts expressed in Hong Kong dollars)	2004	2003
$nil - $1,000,000	9	5
$1,500,001 - $2,000,000	1	—
$2,000,001 - $2,500,000	4	2
$2,500,001 - $3,000,000	1	1
$3,500,001 - $4,000,000	—	1
$6,500,001 - $7,000,000	—	1
	15	10

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

11. Directors', Senior Executives' and Supervisors' Emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest of the Group for 2004 were all directors of the Company (2003: 4) whose emoluments are reflected in the analysis presented above. For 2003, the emoluments payable to the remaining individual are as follows:

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

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

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

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 2004 (2003: 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 24% (2003: 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:

	2004 RMB'000	2003 RMB'000
Contributions to defined contribution pension schemes	**244,397**	273,182
Contributions to supplementary defined contribution pension schemes	**41,596**	39,854

13. Housing Benefits

Under 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 New Guoxin, the living quarters were provided by China Telecom prior to the establishment of New Guoxin and the related benefits were not charged to the Group. In the case of the GSM Business, certain of these living quarters were provided by Unicom Group and the related benefits were not charged to the Group. Housing benefits which were not charged to the Group amounted to approximately RMB14.9 million for 2004 (2003: RMB18.5 million).

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

In addition, all of the full time employees of the Group are entitled to participate in a state-sponsored housing fund. The fund can be used for the construction of living quarters or may be withdrawn upon the retirement of the employees. The Group is required to make annual contributions to the housing fund at a rate on 10% (2003: 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.

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

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

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

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

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

For the years ended 31 December 2004 and 2003, 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 2004 and 2003 amounted to approximately RMB21,907,000 and RMB109,210,000 respectively, based on the aforementioned distribution plan. The remaining provinces were not entitled to the special monetary housing benefits in 2004 since they did not achieve their annual performance budget in 2004 and accordingly, no provision for such benefits was made.

13. Housing Benefits (continued)

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):

	2004 RMB'000	2003 RMB'000
Special monetary housing benefits	**21,907**	109,210
Contributions to housing fund	**224,686**	170,614
Other housing benefits	**345,885**	305,518
	592,478	585,342

14. Taxation

Provision for taxation represents:

	2004 RMB'000	2003 RMB'000
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**1,422,635**	1,064,968
Deferred taxation	**656,990**	823,413
	2,079,625	1,888,381

There is no Hong Kong profits tax liability as the Group does not have any assessable income sourced from Hong Kong for 2004 and 2003.

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

(a) The tax liabilities of CUCL and its wholly-owned subsidiaries for 2004 and 2003 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 World for 2004 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 World 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%.

14. Taxation (continued)

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:

PRC	**2004**	2003
Statutory tax rate of 33%	**33.0%**	33.0%
Non-deductible expenses	**2.0**	0.3
Effect of preferential tax rates	**(2.1)**	(1.6)
Increase in opening deferred tax assets resulting from an increase in tax rate	**(0.4)**	(2.3)
Tax credits (Note (a))	**(0.3)**	—
Additional expense deductible for tax purpose (Note (b))	**—**	(0.9)
Write-off of deferred tax assets previously recognised for New Guoxin	**—**	1.9
Effective PRC income tax rate	**32.2%**	30.4%
Hong Kong		
Statutory tax rate of 17.5%	**17.5%**	17.5%
Non-deductible expenses	**189.0**	(96.9)
Non-taxable income:		
- Interest income	**(170.8)**	79.4
- Leased line rental income sourced from outside Hong Kong	**(27.0)**	—
Effective HK income tax rate	**8.7%**	—
Total overall effective income tax rate	**32.2%**	31.0%

Tax effect of preferential tax rate is as follows:

	2004	2003
Aggregate amount (RMB in millions)	**135**	97
Per share effect (RMB)	**0.011**	0.008

Notes:

(a) For 2004, tax credits represented investment tax credits relating to the additions of certain domestic equipment that were deductible against current tax.

(b) During 2003, CUCL and Unicom New World confirmed with 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. Such deferred tax assets will be utilised on a straight-line basis over 3 years.

14. Taxation (continued)

The movement of the deferred tax assets is as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Balance, beginning of year	**1,198,749**	1,815,234
Acquisition of Unicom New World	**—**	206,928
Acquisition of Unicom International	**(2,090)**	—
Deferred taxation charged to income statement	**(656,990)**	(823,413)
Balance, end of year	**539,669**	1,198,749

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

		The Group	
		2004	2003
	Note	**RMB'000**	RMB'000
Deferred tax assets:			
Interest on loans from CCF joint ventures	(a)	**150,954**	256,673
Loss arising from terminations of CCF Arrangements	(a)	**174,637**	236,249
Income tax on advances from customers for telephone cards		**—**	261,467
Provision for impairment loss for property, plant and equipment		**4,721**	4,875
Provision for doubtful debts of Cellular Business		**526,514**	534,839
Write-off of other assets		**—**	7,563
Write-down of inventories to net realisable value		**39,103**	15,905
Amortisation of retirement benefits		**6,678**	18,549
Additional depreciation deductible for tax purpose		**18,258**	101,267
Differences on tax basis for the residual value of property, plant and equipment		**10,045**	7,608
Monetary housing benefits		**17,171**	56,826
Other		**16,740**	29,309
		964,821	1,531,130
Deferred tax liabilities:			
Change of depreciation period		**—**	(28,268)
Accelerated depreciation for tax purpose		**(26,280)**	—
Capitalised interest already deducted for tax purpose		**(398,872)**	(304,113)
		(425,152)	(332,381)
Net deferred tax assets		**539,669**	1,198,749
Less: Current portion of deferred tax assets		**(606,009)**	(873,849)
		(66,340)	324,900

14. Taxation (continued)

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, 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, Unicom New Century (which has been merged into and succeeded by CUCL), and Unicom New World were registered as foreign investment enterprises in the PRC. In accordance with the Articles of Association of CUCL and Unicom New World, 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 World 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 years ended 31 December 2004, no appropriation to staff bonus and welfare fund has been made (2003: Nil).

Accordingly, CUCL and Unicom New World appropriated approximately RMB387,185,000 (2003: RMB382,030,000) and RMB42,115,000 (2003: Nil) respectively to the general reserve fund for the year ended 31 December 2004. Unicom New Century appropriated approximately RMB37,236,000 to the general reserve fund for the year ended 31 December 2003.

(b) At the annual general meeting held on 12 May 2004, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2003 totaling RMB1, 256,159,607 which has been reflected as an appropriation of retained profits for 2004. As of 31 December 2004, such dividends have been fully paid by the Company.

At a meeting held on 24 March 2005, 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 2004 totaling RMB1,256,349,207. This proposed dividend has not been reflected as a dividend payable in the financial statements as of 31 December 2004, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 31 December 2005.

15. Profits Attributable to Shareholders (continued)

(c) For the year ended 31 December 2004, profit attributable to shareholders included a profit of approximately RMB9,358,000 (2003: loss of approximately RMB21,654,000) which has been dealt with in the financial statements of the Company. As of 31 December 2004, the amount of distributable reserves to shareholders of the Company amounted to approximately RMB1,330,427,000 (2003: RMB2,577,229,000).

16. Earnings per Share

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

Basic earnings per share for the years ended 31 December 2004 and 2003 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 2004 and 2003 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 describe in Note 29. For 2004 and 2003, all potential dilutive shares arose from share options granted in 2002, 2003 and 2004 under the amended Share Option Scheme (see details in Note 29), which if converted to ordinary shares would decrease profit attributable to the shareholders per share. The anti-dilutive shares arising from the share options of approximately 31,944,000 shares (2003: 66,573,000 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:

	2004			2003		
	Profit attributable to shareholders RMB'000	Shares in thousands	Per share amount RMB	Profit attributable to shareholders RMB'000	Shares in thousands	Per share amount RMB
Basic earnings	4,386,999	12,561,242	0.349	4,217,097	12,553,010	0.336
Effect of conversion of share options	—	45,999	—	—	15,673	—
Diluted earnings	4,386,999	12,607,241	0.348	4,217,097	12,568,683	0.336

17. Accounts Receivable, Net

	The Group	
	2004	2003
	RMB'000	RMB'000
Accounts receivable for GSM services	**4,464,963**	5,268,041
Accounts receivable for CDMA services	**3,448,273**	2,408,093
Accounts receivable for Data and Internet services	**537,418**	696,802
Accounts receivable for Long Distance services	**712,833**	587,570
Sub-total	**9,163,487**	8,960,506
Less: Provision for doubtful debts for GSM services	**(2,521,313)**	(2,716,396)
Provision for doubtful debts for CDMA services	**(1,110,024)**	(508,970)
Provision for doubtful debts for Data and Internet services	**(200,373)**	(158,313)
Provision for doubtful debts for Long Distance services	**(101,797)**	(105,280)
	5,229,980	5,471,547

The aging analysis of accounts receivable was as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Not yet due (within credit period)	**3,595,337**	3,433,584
Due within three months	**1,373,240**	1,744,568
Three months to six months	**732,890**	750,719
Six months to one year	**1,398,175**	1,299,386
More than one year	**2,063,845**	1,732,249
	9,163,487	8,960,506

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

Provision for doubtful debts was analysed as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Balance, beginning of year	**3,488,959**	1,733,972
Provision for the year	**2,191,820**	1,749,887
Acquisition of Unicom New World	**—**	199,904
Acquisition of Unicom International	**9,306**	—
Sale of New Guoxin	**—**	(64,664)
Written-off for the year	**(1,756,578)**	(130,140)
Balance, end of year	**3,933,507**	3,488,959

18. Inventories

	The Group	
	2004	2003
	RMB'000	RMB'000
Handsets	**2,045,502**	1,133,027
Telephone cards	**832,050**	855,183
Other	**237,080**	181,144
	3,114,632	2,169,354

19. Prepayments and Other Current Assets

		The Group		The Company	
		2004	2003	**2004**	2003
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Prepaid rental		**277,999**	233,461	**—**	—
Deposits and prepayments		**1,334,220**	1,624,874	**6,063**	7,652
Interest receivable		**1,414**	4,872	**27,341**	4,872
Advances to employees		**164,386**	164,487	**—**	—
Deferred customer acquisition costs of contractual CDMA subscribers	(a)	**860,225**	535,521	**—**	—
Other		**421,470**	584,562	**1,059**	15,808
		3,059,714	3,147,777	**34,463**	28,332

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

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,855,331**	3,109,944	**33,399**	28,116
Over one year	**204,383**	37,833	**1,064**	216
	3,059,714	3,147,777	**34,463**	28,332

19. 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 2004, amortisation of these deferred customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB6,121 million (2003: RMB5,837 million), which was recorded in "selling and marketing" expenses. As of 31 December 2004, the carrying amount of unamortised deferred customer acquisition costs of contractual CDMA subscribers totaled approximately RMB4,745 million (2003: RMB4,447 million), with approximately RMB860 million (2003: RMB536 million) recorded in "prepayment and other current assets" (for contract period within 1 year) and with approximately RMB3,885 million (2003: RMB3,911 million) recorded in "other assets" (for contract period over 1 year) (see Note 22).

In addition, the Group obtained certain CDMA handsets to develop the above CDMA contractual subscribers through finance lease arrangement (see Note 27). The carrying amount of these deferred customer acquisition costs of contractual CDMA subscribers arising from the finance lease amounted to approximately RMB896 million as of 31 December 2004.

As of 31 December 2004, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB2,301 million and RMB148 million (2003: RMB2,366 million and RMB153 million) respectively.

20. Property, Plant and Equipment, Net

	The Group						
	2004						2003
	Land use rights and buildings RMB'000	Telecommuni-cations equipment RMB'000	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000	Total RMB'000
Cost or valuation:							
Beginning of year	13,103,955	115,221,436	4,494,776	1,054,779	21,741,746	155,616,692	138,317,709
Additions	301,360	1,029,561	413,399	92,837	17,196,742	19,033,899	18,806,907
Acquisition of Unicom New World	—	—	—	—	—	—	12,106,458
Acquisition of Unicom International	—	45,987	—	—	11,438	57,425	—
Transfer from CIP	2,541,675	12,407,593	239,585	66,565	(15,255,418)	—	—
Sale of New Guoxin	—	—	—	—	—	—	(12,421,053)
Disposals	(27,255)	(174,102)	(44,291)	(101,773)	—	(347,421)	(1,193,329)
End of year	15,919,735	128,530,475	5,103,469	1,112,408	23,694,508	174,360,595	155,616,692
Representing:							
At cost	13,548,962	128,530,475	5,103,469	1,112,408	23,694,508	171,989,822	153,245,919
At valuation	2,370,773	—	—	—	—	2,370,773	2,370,773
	15,919,735	128,530,475	5,103,469	1,112,408	23,694,508	174,360,595	155,616,692
Accumulated depreciation and impairment:							
Beginning of year	1,524,647	33,821,346	1,641,112	510,432	14,307	37,511,844	30,831,080
Charge for the year	994,931	16,106,795	892,457	233,422	—	18,227,605	15,975,271
Impairment losses	—	—	—	—	—	—	528,048
Sale of New Guoxin	—	—	—	—	—	—	(8,773,970)
Disposals	(7,893)	(139,184)	(34,064)	(101,773)	—	(282,914)	(1,048,585)
End of year	2,511,685	49,788,957	2,499,505	642,081	14,307	55,456,535	37,511,844
Net book value:							
End of year	13,408,050	78,741,518	2,603,964	470,327	23,680,201	118,904,060	118,104,848
Beginning of year	11,579,308	81,400,090	2,853,664	544,347	21,727,439	118,104,848	107,486,629

20. Property, Plant and Equipment, Net (continued)

	The Company			
	2004			2003
	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
Cost :				
Beginning of year	60,633	6,920	67,553	15,273
Additions	1,556	—	1,556	52,280
Transfer-out	—	(6,920)	(6,920)	—
End of year	62,189	—	62,189	67,553
Accumulated depreciation:				
Beginning of year	7,612	6,920	14,532	8,826
Charge for the year	5,130	—	5,130	5,706
Transfer-out	—	(6,920)	(6,920)	—
End of year	12,742	—	12,742	14,532
Net book value:				
End of year	49,447	—	49,447	53,021
Beginning of year	53,021	—	53,021	6,447

As of 31 December 2004, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB1,604 million (2003: RMB1,431 million) have been included in construction-in-progress.

For 2004, interest of approximately RMB648 million (2003: RMB604 million) was capitalised to construction-in-progress.

As of 31 December 2004, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB525 million and RMB113 million (2003: RMB303 million and RMB61 million) respectively.

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 amounted to RMB83 million. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB4.16 million for 2004 (2003: RMB8.80 million). As of 31 December 2004, for these land use right and buildings stated at revalued amounts, their carrying amount would have been approximately RMB1, 695 million (2003: RMB1,783 million) had they been carried at cost less accumulated depreciation.

Telecommunications equipment held under finance leases comprised of certain subsea transmission cables and wireless public phone equipments. As of 31 December 2004, net book value of certain subsea transmission cables and wireless public phone equipments amounted to approximately RMB134 million (2003: RMB147 million) and RMB468 million (2003: Nil) respectively (see Note 27).

21. Goodwill

	The Group	
	2004	2003
	RMB'000	RMB'000
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**	1,144,957
Negative goodwill arising from acquisition of Unicom International (Note 1)	**(7,727)**	—
	3,421,979	3,429,706
Less: Accumulated amortisation	**(285,422)**	(114,238)
	3,136,557	3,315,468

Goodwill arising from the acquisition of Unicom New Century and Unicom New World represented the excess of the purchase consideration over the fair value of the separately identifiable net assets acquired (see Note 4). The amortisation charge of goodwill amounted to approximately RMB171, 485,000 for the year ended 31 December 2004 (2003: RMB114,238,000).

Negative goodwill arising from the acquisition of Unicom International represented the excess of the fair value of the separately identifiable net assets acquired over the purchase consideration. The recognition of the negative goodwill amounted to approximately RMB301,000 for the year ended 31 December 2004.

22. Other Assets

		The Group	
		2004	2003
	Note	**RMB'000**	RMB'000
Interconnection facilities		**441,968**	613,622
Other		**1,852,818**	1,588,839
		2,294,786	2,202,461
Less: Accumulated amortisation		**(1,401,973)**	(1,162,464)
		892,813	1,039,997
Prepaid rental and leased line		**958,886**	897,783
Deferred customer acquisition costs of contractual CDMA subscribers	19(a)	**3,884,685**	3,911,650
		5,736,384	5,849,430

For the year ended 31 December 2004, amortisation of other assets, excluding deferred customer acquisition costs of contractual CDMA subscribers and prepaid rental and leased line, amounted to approximately RMB664,285,000 (2003: RMB294,762,000).

23. Investment in Subsidiaries

	The Company	
	2004	2003
	RMB'000	RMB'000
Unlisted equity investments, at cost	**55,290,963**	55,241,000

During 2004, the Company acquired the entire equity interests in Unicom International, which holds the entire equity interests in Unicom USA. The acquisition became effective in September 2004.

As of 31 December 2004, 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 (On 30 July 2004, CUCL combined with Unicom New Century, and Unicom New Century was legally dissolved) (see Note 1)	The PRC, 21 April 2000, limited liability company	100.00%	—	45,370,994	Telecommunications operation
Unicom New Century (BVI) Limited	British Virgin Islands, 23 October 2002, limited liability company	100.00%	—	12	Investment holding
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

23. Investment in Subsidiaries (continued)

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 International Limited	Hong Kong, 24 May 2000, limited liability company	100.00%	—	106	Telecommunications service
China Unicom USA Co.	USA, 24 May 2002, corporation	—	100.00%	83	Telecommunications service
China Unicom (Macau) Limited	Macau, 15 October 2004, limited liability company	99.00%	1.00%	10,326	Telecommunications operation

Amounts due to/from subsidiaries included in the Company's balance sheet are unsecured, non-interest bearing and repayable/receivable on demand.

24. Payables and Accrued Liabilities

		The Group		The Company	
		2004	2003	**2004**	2003
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Payables to contractors and equipment suppliers		**10,592,518**	11,789,366	**—**	—
Accrued expenses		**1,355,183**	1,417,750	**25,580**	15,220
Payables to telecommunications products suppliers		**1,772,693**	1,346,784	**—**	—
Customer deposits		**1,370,015**	1,198,812	**—**	—
Salary and welfare payables		**465,154**	494,794	**—**	—
Amounts due to Services Provider/ Content Provider		**573,804**	369,330	**—**	—
Other	(a)	**656,382**	481,584	**21,778**	45,101
		16,785,749	17,098,420	**47,358**	60,321

Note:

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

24. Payables and Accrued Liabilities (continued)

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

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Less than six months	**13,343,784**	12,253,057	**33,608**	59,238
Six months to one year	**2,257,802**	3,051,167	**4,500**	1,068
More than one year	**1,184,163**	1,794,196	**9,250**	15
	16,785,749	17,098,420	**47,358**	60,321

25. Short-Term Bank Loans

Interest rates on RMB denominated short-term bank loans ranged from 4.54% to 5.31% per annum for 2004 (2003: 4.54% to 5.31%).

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

	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 2004					
RMB denominated bank loans					
- secured (Note (a)(ii))	100,000				
- unsecured (Note (a)(i))	8,131,431				
	8,231,431	4.86%	10,975,199	9,603,315	5.06%
HK$ denominated bank loans					
- unsecured (Note (b))	696,986				
	696,986	0.90%	696,986	348,493	1.08%
31 December 2003					
RMB denominated bank loans					
- secured (Note (a)(ii))	520,000				
- unsecured (Note (a)(i))	10,455,199				
	10,975,199	5.22%	10,975,199	10,060,850	5.15%

25. Short-Term Bank Loans (continued)

	The Company				
	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 2004					
HK$ denominated bank loans					
- unsecured (Note (b))	696,986				
	696,986	0.90%	696,986	348,493	1.08%

* 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.

Notes:

(a) As of 31 December 2004, short-term bank loans of the Group denominated in RMB were secured by the following:

(i) Approximately RMB3,397 million (2003: RMB70 million) of short-term bank loans were guaranteed by Unicom Group.

(ii) Approximately RMB100 million (2003: RMB520 million) of short-term bank loans were secured by the future service fee revenue to be generated by the cellular operations.

(b) As of 31 December 2004, HK$ denominated short-term bank loans of the Company of approximately HK$655 million (equivalent to approximated RMB697 million) were to finance the working capital. The bank loans were repayable in 1 year and carried an interest rate of 0.22% over HIBOR per annum.

26. Long-Term Bank Loans

		The Group		The Company	
	Interest rates and final maturity	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
RMB denominated bank loans	Fixed interest rate ranging from 4.78% to 5.73% (2003: 4.44% to 5.76%) per annum with maturity through 2010 (2003: maturity through 2009) (Note (a))				
- secured		**6,804,566**	10,622,366	**—**	—
- unsecured		**20,487,127**	26,994,612	**—**	—
		27,291,693	37,616,978	**—**	—
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))	**9,931,800**	5,793,690	**5,793,550**	5,793,690
Less: Current portion		**(11,086,305)**	(7,197,877)	**—**	—
		26,137,188	36,212,791	**5,793,550**	5,793,690

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Balances due:				
- not later than one year	**11,086,305**	7,197,877	**—**	—
- later than one year and not later than two years	**10,226,776**	15,549,832	**1,655,360**	—
- later than two years and not later than five years	**14,092,792**	18,837,560	**2,482,830**	4,138,290
Thereafter	**1,817,620**	1,825,399	**1,655,360**	1,655,400
	37,223,493	43,410,668	**5,793,550**	5,793,690
Less: Portion classified as current liabilities	**(11,086,305)**	(7,197,877)	**—**	—
	26,137,188	36,212,791	**5,793,550**	5,793,690

26. Long-Term Bank Loans (continued)

Notes:

(a) As of 31 December 2004, long-term bank loans of the Group denominated in RMB were secured by the following:

(i) Approximately RMB6,805 million (2003: RMB10,622 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 RMB2,824 million (2003: RMB3,600 million) was also guaranteed by Unicom Group;

(ii) In addition to the above, approximately RMB3,955 million (2003: RMB 8,004 million) of long-term bank loans above were guaranteed by Unicom Group; and

(iii) Approximately RMB26 million (2003: RMB50 million) of long-term bank loans were secured by restricted bank deposits.

(b) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD0.7 billion. This 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 bank loans to CUCL with similar terms to finance the network constructions of CUCL.

In addition, on 25 February 2004, CUCL signed an agreement with various financial institutions for a long-term syndicated loan of USD0.5 billion to finance the working capital and network construction expenditure. This facility was repayable in 3 years and carried an interest rate of 0.40% over US dollar LIBOR per annum.

27. Obligations under Finance Leases

Obligations under finance leases were analysed as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
Total minimum lease payments under finance leases repayable:		
- not later than one year	**938,189**	25,926
- later than one year and not later than two years	**405,453**	8,642
- later than two years and not later than five years	**74,078**	26,017
- later than five years	**137,104**	145,753
	1,554,824	206,338
Less: Future finance charges	**(127,679)**	(81,184)
Present value of minimum obligations	**1,427,145**	125,154
Representing obligations under finance leases:		
- current liabilities	**938,189**	25,435
- non-current liabilities	**488,956**	99,719
The present value of obligations under finance leases:		
- not later than one year	**938,189**	25,435
- later than one year and not later than two years	**358,850**	7,691
- later than two years and not later than five years	**60,692**	20,533
- later than five years	**69,414**	71,495
	1,427,145	125,154
Less: Portion classified as current liabilities	**(938,189)**	(25,435)
	488,956	99,719

Obligations under finance leases were related to the leasing of certain subsea transmission cables (see Notes 20 and 32(b)), CDMA handsets (see Note 19(a)) and wireless public phone equipments (see Note 20).

Interest rates of obligations under finance leases ranged from 4% to 6% per annum.

28. Share Capital

	The Company	
	2004	2003
	HK$'000	HK$'000
Authorised:		
30,000,000,000 ordinary shares of HK$0.1 each	**3,000,000**	3,000,000

		The Company					
		2004			2003		
	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)	**2,838,492**	**283,849**	**301,637**	2,828,172	282,817	300,540
		12,563,492	**1,256,349**	**1,332,487**	12,553,172	1,255,317	1,331,390

Note:

(a) Increase of 10,320,000 ordinary shares in year 2004 (2003: 176,000) represents the ordinary shares in issued under the share option scheme (Note 29(g)).

29. 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 the years 2004 and 2003 are as follows:

	The Company	
	Number of share options involved	
	2004	2003
Balance, beginning of year	**172,367,400**	69,868,600
Granted	**113,322,000**	105,956,000
Exercised	**(10,320,000)**	(176,000)
Cancelled	**(1,306,000)**	(3,281,200)
Balance, end of year	**274,063,400**	172,367,400

(Amounts expressed in RMB unless otherwise stated)

29. Share Option Scheme (continued)

As of 31 December 2004, 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 2004	Number of shares outstanding as of 31 December 2003
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	25,436,600
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	6,508,000
2 August 2002 (Note (c))	10 July 2003 to 9 July 2008	HK$6.18	25,954,800	34,466,800
21 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.30	102,476,000	105,590,000
30 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.66	366,000	366,000
20 July 2004 (Note (e))	20 July 2005 to 19 July 2010	HK$5.92	112,668,000	—
21 December 2004 (Note (f))	21 December 2005 to 20 December 2010	HK$6.20	654,000	—
			274,063,400	172,367,400

(a) According to the resolution passed by the Board of Directors in June 2000, a total of the 27,116,600 options were granted on 22 June 2000 to the senior management, including directors, and certain other employees (which represent, on their full exercise, 27,116,600 shares of the Company) under 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.

29. 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 were dealings in the shares on the HKSE.

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

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

(ii) the period during which an option 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.

(Amounts expressed in RMB unless otherwise stated)

29. 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 resolution 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 prices per share option are 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%

29. Share Option Scheme (continued)

(e) According to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 20 July 2004, a total of 112,668,000 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 3,366,000 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$5.92; and

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

Vesting dates	Exercisable periods	Portions
20 July 2005	20 July 2005 to 19 July 2010	40%
20 July 2006	20 July 2006 to 19 July 2010	30%
20 July 2007	20 July 2007 to 19 July 2010	30%

(f) According to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 21 December 2004, a total of 654,000 share options were granted to the executive directors of the Company, under the amended Share Option Scheme in the following terms:

(i) the exercise price per share option is HK$6.20; and

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

Vesting dates	Exercisable periods	Portions
21 December 2005	21 December 2005 to 20 December 2010	40%
21 December 2006	21 December 2006 to 20 December 2010	30%
21 December 2007	21 December 2007 to 20 December 2010	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.

(Amounts expressed in RMB unless otherwise stated)

29. Share Option Scheme (continued)

(g) Details of share options exercised during the year were as follows:

Period of option exercised	Exercise price HK$	Weighted average closing price per share immediately before days of exercise of options HK$	Proceeds received HK$	Number of shares involved
5 January to 22 September 2004	6.18	9.42	52,604,160	8,512,000
25 May to 31 December 2004	4.30	6.09	7,774,400	1,808,000
			60,378,560	10,320,000

30. 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 2004:

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
Unicom Import and Export Company Limited ("Unicom I/E Co")	A subsidiary of Unicom Group
Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon")	A subsidiary of Unicom Group
Unicom New Guoxin Telecommunication Corporation Limited ("New Guoxin", originally known as "Guoxin Paging", which changed to its present name on 29 April 2004)	A subsidiary of Unicom Group
UNISK (Beijing) Information Technology Corporation Limited ("UNISK")	A joint venture company 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
China Unicom International Limited ("Unicom International")	A subsidiary of the Company
China Unicom USA Corporation ("Unicom USA")	A subsidiary of the Company

30. Related Party Transactions (continued)

(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.

Transactions with Unicom Group and its subsidiaries:	Note	2004 RMB'000	2003 RMB'000
Interconnection and roaming revenues	(i), (iii)	**220,174**	1,002,702
Interconnection and roaming charges	(ii), (iii)	**63,891**	316,271
Charge for cellular subscriber value-added service	(iv), (v)	**858,778**	—
Charge for customer services	(iv), (vi)	**524,718**	—
Charge for cellular subscriber value-added service by UNISK	(vii)	**4,228**	—
Rental charges for premises, equipment and facilities	(viii)	**25,528**	17,936
Rental income for premises and facilities	(iv), (ix)	**19,475**	—
Revenue for leasing of transmission line capacity	(x)	**38,853**	185,086
CDMA network capacity lease rental	(xi)	**6,588,926**	3,515,364
Constructed capacity related cost of CDMA network	(xii)	**305,903**	—
Charges for the international gateway services	(xiii)	**17,062**	8,631
Leasing of satellite transmission capacity	(xiv)	**14,152**	26,400
Sales of CDMA handsets	(xv)	**—**	64,929
Purchase of CDMA handsets	(xvi)	**14,655**	—
Purchase of telecom cards	(xvii)	**1,087,498**	1,186,500
Commission expenses for sales agency services incurred for telecom cards	(xviii)	**16,023**	16,175
Agency fee incurred for subscriber development	(iv), (xix)	**9,054**	—
Agency fee incurred for procurement of telecommunications equipment	(xx)	**17,759**	17,904

(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.

30. Related Party Transactions (continued)

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

(iv) Related party transactions existed between the Group and New Guoxin after the sale of New Guoxin by CUCL on 31 December 2003. The nature, terms and conditions of these new related party transactions with New Guoxin have been set forth in the shareholders' circular "Connected Transactions" of the Company issued on 26 November 2003. Such transactions mainly included (i) cellular subscriber value-added services, (ii) customer services, (iii) agency services, and (iv) provision of premises. Upon the sale of New Guoxin, these transactions become related party transactions starting from 1 January 2004. Prior to 31 December 2003, the Group's transactions with New Guoxin were treated as inter-group transactions and have been eliminated in the Group's consolidated financial statements.

(v) Pursuant to the Comprehensive Operator Service Agreement ("Comprehensive Service Agreement") signed between the Group and New Guoxin dated 20 November 2003, New Guoxin provides operator-based value-added services to the Group's cellular subscribers through its comprehensive business network. The respective branches of New Guoxin and the Group may agree on the proportion for sharing the revenue derived from such value-added services, on the condition that such agreed proportion for New Guoxin shall not be higher than the average proportion for independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region.

(vi) Pursuant to the Comprehensive Service Agreement, New Guoxin provides business inquiries, tariff inquiries, account maintenance, complaints handling, and customer interview and subscriber retention services to the Group's customers through the use of its 1001 paging network. The service fee payable by the Group shall be calculated on the basis of the customer service costs plus a profit margin, which shall not exceed 10%. The customer service costs were determined by the actual cost per operator seat and the number of effective operator seats.

(vii) CUCL and UNISK signed a Cellular Subscriber Value-Added Services Agreement (the "Agreement") in March 2004. According to the Agreement, CUCL agreed to provide its telecommunication channel and network subscriber resources to UNISK to enable UNISK to provide value-added services to subscribers through CUCL's cellular telecommunications network and data platform. The Agreement also stipulates that the content service fees paid by subscribers for using UNISK's value-added services are shared between CUCL and UNISK based on agreed proportion. The content service fees are collected from subscribers by CUCL and the relevant portion is paid to UNISK on a regular basis.

(viii) CUCL, Unicom New Century (which has been merged into and succeeded by CUCL) and Unicom New World 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.

(ix) Pursuant to the Guoxin Premises Leasing Agreement signed between the Group and New Guoxin dated 20 November 2003, the Group agreed to provide premises to New Guoxin. The rental amount in each case is based on the higher of depreciation costs and market price for similar premises in that locality.

(x) 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%.

In addition, according to the leased line agreement entered into between the Group and Unicom USA, the Group leases transmission line to Unicom USA. The revenue for the leases of transmission line was recognised based on the market price amounted to approximately RMB14 million for the nine months ended September 2004 (2003: Nil). Such transaction became inter-group transactions and has been eliminated in the Group's consolidated financial statements after the acquisition of Unicom International in September 2004.

30. Related Party Transactions (continued)

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

(xi) According to the CDMA Lease Agreements 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 (which has been merged into and succeeded by CUCL) and Unicom New World have also entered into CDMA capacity lease agreements with Unicom Group and Unicom New Horizon. 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 31 for details).

(xii) CUCL and Unicom New World entered into a supplemental agreement with Unicom New Horizon on 22 November 2004 in respect of CDMA capacity lease agreement. Pursuant to the supplemental agreement, the constructed capacity related costs shall be borne by the Group only to the extent of such part of costs that corresponds to the proportion of capacity actually leased under the relevant CDMA lease agreements. Such part of the constructed capacity related costs that corresponds to the proportion of capacity not actually leased under the relevant CDMA lease shall be borne by Unicom New Horizon.

The constructed capacity related costs are defined as the costs of operating and managing the CDMA network which relate directly to the constructed capacity of the CDMA network, including the rental fees for stations and base stations and related expenses including water and electricity charges, heating charges and fuel charges for the relevant equipment etc., as well as maintenance costs of a non-capital nature.

(xiii) 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.

(xiv) 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.

In the second half of 2004, Unicom NewSpace sold the entire assets of satellite transmission to Unicom Group. The rights and liabilities of satellite transmission capacity lease agreement were succeeded by Unicom Group.

(xv) According to the sales of CDMA handsets agreement entered into between Unicom Group and Unicom Guomai Communications Corporation Limited (previously a subsidiary of New Guoxin and sold to China Satellite Communications Corporation in August 2004, "Unicom Guomai") on 1 January 2003, Unicom Group agreed to purchase CDMA handsets from Unicom Guomai. The selling price was negotiated on an arm's length basis, which is not lower than the price sold by Unicom Guomai to independent third parties. Upon the completion of sales of New Guoxin on 31 December 2003, transactions between Unicom Guomai and Unicom Group did not constitute a related party transaction of the Company.

(xvi) According to the purchase of CDMA handset agreement entered into between Unicom NewSpace and certain subsidiaries of the Group, the Group agreed to purchase CDMA handsets from Unicom NewSpace. The purchase price approximated market price.

(xvii) The Group signed a service agreement with Unicom Group to purchase telephone 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.

30. Related Party Transactions (continued)

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

(xviii) 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.

Prior to September 2004, the Group's transactions with Unicom International (previously a subsidiary of Unicom Group) were treated as related party transaction, and had been included in the related party transactions described above for the year ended 31 December 2004 and 2003. Such transaction became inter-group transactions and has been eliminated in the Group's consolidated financial statements starting from September 2004.

(xix) Pursuant to the Comprehensive Service Agreement, New Guoxin provides subscriber development services to the Group through telephone or other channels by utilising its paging network, equipment and operators. The agency fee chargeable to the Group does not exceed the average of agency fees chargeable by any independent third party agent in the same region.

(xx) 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.

On 22 November 2004, the Group entered into an amendment agreement with Unicom I/E Co., with respect to the above service agreement. Accordingly, with effect from 1 July 2004, the charge rates for the equipment procurement service have been changed to 0.55% (for contract with an amount of US$30 million (inclusive)) and 0.35% (for contract with an amount of more than US$30 million) of the value of imported equipment, and 0.25% (for contract with an amount of RMB200 million (inclusive)) and 0.l5% (for contract with an amount mort than RMB200 million) of the value of domestic equipment.

(xxi) 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 (which has been merged into and succeeded by CUCL) and Unicom New World are granted the right to use these trademarks on a royalty free basis for an initial period of 10 years, renewable for another 10 years at CUCL and Unicom New World's options.

(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.

30. Related Party Transactions (continued)

(c) Amount due (from)/ to Unicom Group

	The Group	
	2004	2003
	RMB'000	RMB'000
Due to Unicom Group, beginning of year	**432,047**	562,633
Interconnection and roaming revenues	**(220,174)**	(1,002,702)
Interconnection and roaming charges	**63,891**	316,271
Revenue for leasing of transmission line capacity, premises and facilities	**(38,853)**	(185,086)
Rental charges for premises, equipment and facilities	**25,528**	17,936
Sales of CDMA handsets	**—**	(64,929)
Charges for the international gateway services	**17,062**	8,631
Leasing of satellite transmission capacity	**7,076**	—
Settlement made during the year	**(797,978)**	224,158
Proceeds received/(receivable) from sale of New Guoxin	**450,000**	(450,000)
Amounts due to Unicom Group by Unicom New World	**—**	1,005,135
Due (from)/ to Unicom Group, end of year	**(61,401)**	432,047

(d) Bank loans guaranteed by Unicom Group

As of 31 December 2004, the Group had approximately RMB6,779 million (2003: RMB11,604 million) of long-term bank loans and approximately RMB3,397 million (2003: RMB70 million) of short-term bank loans guaranteed by Unicom Group.

31. 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 the 9 provinces of 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 the 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 2004, CUCL renewed the CDMA Lease Agreement with Unicom New Horizon for a further one year.

Unicom New Century (which has been merged into and succeeded by CUCL) 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 agreements, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL covering 6 provinces, 2 autonomous regions and 1 municipality and to Unicom New World covering 6 provinces and 3 autonomous regions. On 31 December 2003, CUCL renewed the CDMA Lease Agreement with Unicom New Horizon for a further year.

The aforementioned CDMA network capacity leases have constituted continuing connected transactions for the Company and were granted waivers from strictly compliance with the relevant provisions of the Listing Rules by the Stock Exchange of Hong Kong Limited on 27 December 2001, 31 December 2002 and 31 December 2003 respectively. Such waivers will expire by the end of 2004, 2005 and 2006 respectively. According to the shareholders' circular "Continuing Connected Transactions" of the Company dated 1 December 2004, CUCL and Unicom New World have determined to renew the CDMA Lease Agreements with Unicom New Horizon with the same terms as contained in the above CDMA Lease Agreement, effective on 8 January 2005 and 31 December 2004 respectively. The above continuing connected transactions to renew the leasing of CDMA network capacity have been approved and resolution passed by the minority shareholders of the Company pursuant to the extraordinary shareholders' meeting held by the Company on 23 December 2004.

32. 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	**2004** RMB'000	2003 RMB'000
Interconnection revenue	(i)	**2,889,497**	1,647,221
Interconnection charges	(i)	**7,003,262**	5,301,792
Leased line revenue	(ii)	**247,676**	218,974
Leased line charges	(ii)	**628,173**	722,684

Notes:

(i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's 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 provision of transmission line. At the same time, the Group leases transmission line to domestic carriers in return of leased line rental income. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.

32. Transactions with Domestic Carriers (continued)

(b) Amounts due from and to domestic carriers

	The Group	
	2004	2003
	RMB'000	RMB'000
Amounts due from domestic carriers:		
- Receivable for interconnection revenue and leased line revenue	**270,068**	184,729
- Less: Provision for doubtful debts	**(149)**	(116)
	269,919	184,613
Amounts due to domestic carriers:		
- Payables for interconnection charges and leased lines charges	**948,574**	778,841
Long-term payable due to domestic carriers:		
- Payables for obligations under finance leases:		
- Current portion of obligations under finance leases	**25,926**	25,435
- Obligations under finance leases	**97,638**	99,719
	123,564	125,154

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 27).

33. 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 31);
- 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 (discontinued in 2004).

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.

33. Segment Information (continued)

(a) Business segments

	2004						
	Continuing operations						
	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
Operating revenue (Turnover):							
Usage fee	31,997,020	16,164,333	2,685,083	879,281	—		51,725,717
Monthly fee	6,922,400	4,638,024	—	—	—		11,560,424
Interconnection revenue	2,614,268	927,288	131,371	454,383	—		4,127,310
Leased lines rental	—	—	344,014	512,134	—		856,148
Other revenue	5,045,547	2,489,957	502,266	2,211	—		8,039,981
Total services revenue	46,579,235	24,219,602	3,662,734	1,848,009	—		76,309,580
Sales of telecommunications products	886,527	2,118,321	14,782	2,401	—		3,022,031
Total operating revenue from external customers	47,465,762	26,337,923	3,677,516	1,850,410	—		79,331,611
Intersegment revenue	135,521	107,477	2,059,881	1,264,140	—	(3,567,019)	—
Total operating revenue	47,601,283	26,445,400	5,737,397	3,114,550	—		79,331,611
Operating expenses:							
Leased lines and network capacities	(284,092)	(6,685,059)	(361,412)	(67,565)	—		(7,398,128)
Interconnection charges	(6,452,988)	(2,794,843)	(917,294)	(918,480)	—	3,567,019	(7,516,586)
Depreciation and amortisation	(16,170,745)	(438,957)	(1,795,499)	(530,695)	(5,133)	(122,045)	(19,063,074)
Personnel	(2,917,299)	(861,614)	(443,466)	(279,664)	(24,057)		(4,526,100)
Selling and marketing	(5,755,780)	(11,337,638)	(1,387,453)	(463,477)	—		(18,944,348)
General, administrative and other expenses	(7,016,838)	(2,206,458)	(865,889)	(320,115)	(38,941)		(10,448,241)
Cost of telecommunications products sold	(742,177)	(2,708,699)	(22,371)	(5,742)	—		(3,478,989)
Total operating expenses	(39,339,919)	(27,033,268)	(5,793,384)	(2,585,738)	(68,131)		(71,375,466)
Operating profit (loss)	8,261,364	(587,868)	(55,987)	528,812	(68,131)		7,956,145
Interest income	67,526	11,093	5,504	3,653	129,512	(114,381)	102,907
Finance costs	(1,599,084)	(36,755)	(17,569)	(36,962)	(112,429)	114,381	(1,688,418)
Other income (expense), net	14,725	42,695	(1,195)	140	39,625		95,990
Segment profit (loss) before taxation	6,744,531	(570,835)	(69,247)	495,643	(11,423)		6,466,624
Taxation	—	—	—	—	—		(2,079,625)
Profit attributable to shareholders	—	—	—	—	—		4,386,999
Other information:							
Provision for doubtful debts	1,317,374	645,470	164,514	64,462	—		2,191,820
Capital expenditures for segment assets (1)	6,396,406	—	2,444,623	1,949,202	7,595,817		18,386,048

33. Segment Information (continued)

(a) Business segments (continued)

	2003							
	Continuing operations				Discontinued operation			
	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
Monthly fee	7,042,299	3,488,411	9,085	—	612,999	—		11,152,794
Interconnection revenue	1,926,907	607,830	361,514	365,724	1,654	—		3,263,629
Leased lines rental	—	—	420,433	701,549	—	—		1,121,982
Other revenue	2,262,156	855,754	202,441	57,835	788,400	—		4,166,586
Total services revenue	40,303,611	16,623,518	3,437,083	2,273,148	1,403,053	—		64,040,413
Sales of telecommunications products	862,777	1,956,452	7,814	14,914	753,955	—		3,595,912
Total operating revenue from external customers	41,166,388	18,579,970	3,444,897	2,288,062	2,157,008	—		67,636,325
Intersegment revenue	41,057	41,725	1,826,222	866,728	230,075	—	(3,005,807)	—
Total operating revenue	41,207,445	18,621,695	5,271,119	3,154,790	2,387,083	—		67,636,325
Operating expenses:								
Leased lines and network capacities	(339,410)	(3,576,498)	(294,888)	(78,027)	(80,084)	—	48,525	(4,320,382)
Interconnection charges	(5,478,520)	(1,684,749)	(732,210)	(752,521)	—	—	2,727,207	(5,920,793)
Depreciation and amortisation	(13,117,906)	(306,754)	(1,305,239)	(419,346)	(1,144,922)	(5,650)	(85,476)	(16,385,293)
Personnel	(2,605,475)	(660,894)	(525,726)	(333,051)	(415,554)	(33,846)		(4,574,546)
Selling and marketing	(4,605,600)	(9,141,877)	(883,495)	(405,904)	(126,018)	—	6,059	(15,156,835)
General, administrative and other expenses	(5,571,493)	(1,363,927)	(761,405)	(462,081)	(916,418)	(37,550)	489	(9,112,385)
Cost of telecommunications products sold	(765,926)	(2,177,168)	(22,250)	(4,231)	(907,697)	—	225,227	(3,652,045)
Total operating expenses	(32,484,330)	(18,911,867)	(4,525,213)	(2,455,161)	(3,590,693)	(77,046)		(59,122,279)
Operating profit (loss)	8,723,115	(290,172)	745,906	699,629	(1,203,610)	(77,046)		8,514,046
Loss on sale of discontinued operation (New Guoxin)							(663,279)	(663,279)
								7,850,767
Interest income	58,006	7,013	4,589	3,400	9,099	106,734	(15,808)	173,033
Finance costs	(1,754,050)	(32,078)	(62,791)	(56,946)	(5,238)	(40,727)	15,808	(1,936,022)
Other (expense) income, net	(21,609)	3,680	(4,741)	1,488	39,868	(10,615)		8,071
Segment profit (loss) before taxation and minority interests	7,005,462	(311,557)	682,963	647,571	(1,159,881)	(21,654)		6,095,849
Taxation	—	—	—	—	—	—		(1,888,381)
Profit after taxation	—	—	—	—	—	—		4,207,468
Minority interests	—	—	—	—	—	—		9,629
Profit attributable to shareholders	—	—	—	—	—	—		4,217,097
Other information:								
Provision for doubtful debts	1,116,523	397,810	125,676	75,870	34,008	—		1,749,887
Impairment loss recognised in the income statement	—	—	—	—	528,038	—		528,038
Capital expenditures for segment assets (1)	8,906,166	—	4,128,985	2,555,252	35,126	4,129,690		19,755,219

33. Segment Information (continued)

(a) Business segments (continued)

	As of 31 December 2004						
	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
Total segment assets	100,220,012	6,183,758	9,470,980	18,042,840	62,101,761	(50,390,158)	145,629,193
Total segment liabilities	48,676,856	7,663,420	4,437,311	5,408,689	6,632,463		72,818,739

	As of 31 December 2003						
	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
Total segment assets	104,430,531	4,717,167	8,611,873	19,061,967	63,234,534	(50,218,142)	149,837,930
Total segment liabilities	56,837,496	6,561,772	3,975,293	6,918,025	5,929,854		80,222,440

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

(b) Geographical segments

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

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment 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 2004, 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 carrying out the Paging Business, New Guoxin, was disposed of on 31 December 2003, which has been reported as a discontinued operation (see Note 5).

34. Fair Value of Financial Instruments

Financial assets of the Group include bank balances and cash, short-term bank deposits, 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 2004.

	The Group					
	2004			2003		
	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$	75,562	1.06	80,406	19,126	1.06	20,382
- denominated in US dollars	4,803	8.28	39,753	81,888	8.27	677,764
Sub-total			120,159			698,146
Short-term deposits:						
- denominated in US dollars	79,946	8.28	661,675	110,285	8.27	912,794
Sub-total			661,675			912,794
Total			781,834			1,610,940

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 2004 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 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.

35. Contingencies and Commitments

(a) Capital commitments

As of 31 December 2004 and 2003, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group			
	2004			2003
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Total RMB'000
Authorised and contracted for	659,435	4,387,705	5,047,140	6,711,938
Authorised but not contracted for	145,997	1,344,328	1,490,325	1,195,162
Total	805,432	5,732,033	6,537,465	7,907,100

As of 31 December 2004, approximately RMB126 million (2003: RMB83 million) of capital commitment outstanding was denominated in US dollars (equivalent to US$15 million (2003: US$10 million)).

(b) Operating lease commitments

As of 31 December 2004 and 2003, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	The Group				
	2004				2003
	Land and buildings RMB'000	Equipment RMB'000	CDMA network capacities (Note (a)) RMB'000	Total RMB'000	Total RMB'000
Leases expiring:					
- not later than one year	612,169	138,852	5,930,037	6,681,058	7,150,023
- later than one year and not later than five years	1,703,163	211,034	—	1,914,197	1,391,120
- later than five years	1,011,280	56,423	—	1,067,703	953,917
Total	3,326,612	406,309	5,930,037	9,662,958	9,495,060

Note (a): In relation to the above CDMA network capacities commitment, it is estimated based on 90% of the total amount of lease fee paid by the Group to Unicom New Horizon in 2004 pursuant to the New CDMA Lease (see Note 36(b)(i) for details). The New CDMA Lease is to be approved by the minority shareholders of the Company.

35. Contingencies and Commitments (continued)

(b) Operating lease commitments (continued)

As of 31 December 2004 and 2003, the Company had total future aggregate minimum operating lease payments under operating leases as follows:

	The Company	
	2004	2003
	Office premises	
	RMB'000	RMB'000
Leases expiring:		
- not later than one year	**5,002**	4,778
- later than one year and not later than five years	**4,028**	7,384
Total	**9,030**	12,162

(c) Commitment to purchase CDMA handsets

As of 31 December 2004, the Group committed to purchase CDMA handsets amounted to approximately RMB1,968 million (2003: RMB920 million).

36. Events after Balance Sheet

(a) Combination of Unicom New World

With approval of Ministry of Commerce, CUCL has planned to combine with Unicom New World. After the combination, Unicom New World will be legally dissolved and succeed by CUCL. As of 24 March 2004, the relevant legal procedures regarding the combination has not been completed.

36. Events after Balance Sheet (continued)

(b) New connected transaction agreements

On 24 March 2005, CUCL and Unicom New World entered into the new agreements of "New Comprehensive Service Agreement", "New CDMA Lease", "New Comprehensive Operator Services Agreement" and "New Guoxin Premises Leasing Agreement" with Unicom Group, Unicom New Horizon and New Guoxin to replace the old agreements. The new agreements would become effective from 1 January once approved by the shareholders' meeting. Changes of the key terms between the new agreements and the old agreements are set out as follows:

(i) New CDMA Lease

Pursuant to the New CDMA Lease, the CDMA lease has an initial term of two years (the "Initial Term"), the lease fee of the CDMA Network shall be determined on the basis of the lessee's services revenue, details as follows:

- in 2005, the lease fee shall be 29% of the audited CDMA service revenue of the lessee for that year, but shall not less than 90% of the total amount of lease fee paid by the Group to Unicom New Horizon pursuant to the old lease agreements for 2004 (see Note 31); and
- in 2006, the lease fee shall be 30% of the audited CDMA service revenue of the lessee for that year, but shall not less than 90% of the total amount of lease fee paid by the Group to Unicom New Horizon pursuant to the New CDMA Lease agreement for 2005.

Pursuant to the New CDMA Lease, the constructed capacity related costs, including the rental fees for the exchange centres and the base stations, water and electricity charges, heating charges and fuel charges for the relevant equipment etc., as well as the maintenance costs of a non-capital nature, shall be borne by the lessor and lessee together. The proportion of the constructed capacity related costs to be borne by the the lessee shall be calculated on a monthly basis by reference to the actual number of cumulative CDMA subscribers of the Group at the end of the month prior to the occurrence of the costs divided by 90%, as a percentage of the total capacity available on the Network.

(ii) New Comprehensive Operator Services Agreement

Pursuant to the New Comprehensive Operator Services Agreement, the Group shall retain 40% of the actually received revenue generated from the value-added services provided to the Group's subscribers and allocate 60% of such revenue to New Guoxin and the settlement should be made among branches of the Group and New Guoxin respectively.

37. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 24 March 2005.