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

(A) Effect of the acquisitions of entities under common control

Under HK GAAP, the Group has adopted the purchase method of accounting to account for the acquisitions of Unicom New Century, Unicom New World and Unicom International (the "Acquisitions"). Under the purchase method, the operating results of these acquired subsidiaries have been included in the consolidated income statement of the Group after the Acquisitions were effective. The differences between the costs of acquisitions and the fair values of the separately identifiable net assets acquired have been recorded as goodwill/negative goodwill, which are amortised using the straight-line method over the relevant beneficial periods.

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

(B) Effect of the disposal of entity under common control

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

Under US GAAP, the sale of New Guoxin to Unicom Group is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value (see Note (H)). In addition, under US GAAP, the results of operations of a component, including a segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separately from continuing operations, in the period in which the disposal occurred as well as in prior periods. Accordingly, all the operating results of New Guoxin have been grouped into and reported in the income statements for the year ended 31 December 2003 as "Discontinued operation-Loss from discontinued operation" under US GAAP.

(C) Consolidation of variable interest entities

Under HK GAAP, consolidation of business enterprises is based on voting control. Under US GAAP, pursuant to Financial Accounting Standard Board ("FASB") Interpretation No. 46 (revised in December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), consolidation by business enterprises is based on economic risks and rewards model rather than a traditional voting interest model. Entities subject to consolidation under the economic risks and rewards model is called a Variable Interest Entity ("VIE"). In accordance with the provision of FIN 46R, the Group has identified one VIE, Unicom New Horizon, in which it holds a variable interest in the form of lease renewal options. Unicom New Horizon is a 100% owned subsidiary of the Group's controlling shareholder, from which the Group leases its CDMA assets on a capacity-used basis under operating leases, subject to indefinite renewal options. The Group has concluded that its controlling shareholder is the primary beneficiary of Unicom New Horizon, since it absorbs all of Unicom New Horizon's expected losses (through its ownership of 100% of Unicom New Horizon's equity and an unconditional guarantee of 100% of Unicom New Horizon debt) and is indirectly associated with the operations of the leased CDMA assets through its majority ownership of the Group. As such, the adoption of FIN 46R did not result in any differences from the Group's HK GAAP consolidated financial statements.

(D) Revenue and costs recognition

(i) Upfront non-refundable revenue and related incremental cost

Under HK GAAP, upfront non-refundable revenue, such as connection fee, is recognised when received upon completion of activation services. Under US GAAP, in accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", which was superseded by SAB No.104, "Revenue Recognition", upfront non-refundable revenue and the related direct incremental costs incurred are deferred and recognised over the estimated customer service periods. The expected customer service period for the Cellular Business is estimated based on the expected stabilised churn rates. On this basis, the weighted average customer service period based on current estimation considering the prevailing market environment is approximately 4 years (2003: 4 years).

(ii) Revenue arrangements with multiple deliverables

Under HK GAAP, the revenue should be measured at the fair value of the consideration received and receivable. When the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services.

Under US GAAP, pursuant to the Emerging Issues Task Force Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF Issue 00-21"), revenue-generating arrangements involving multiple deliverables should be divided into separate units of accounting and accounted for separately, if (i) the deliverables are independently functional or sufficiently separable and (ii) there is sufficient evidence of related fair values. In 2004, the Group adopted the provisions of EITF Issue 00-21, which after an analysis of its various revenue-generating arrangements, except for (i) above, did not result in any differences from the Group's HK GAAP consolidated financial statements.

(E) Employee housing schemes

Prior to the establishment of New Guoxin and CUCL, both China Telecom (the previous owner of New Guoxin prior to its restructuring into the Group) and Unicom Group provided housing benefits to qualified employees of the Group to enable them to purchase living quarters at a discount. Under HK GAAP, housing benefits incurred and borne by China Telecom and Unicom Group for these employees were not recognised by the Group. Under US GAAP, the amount of such housing benefits is being recognised as part of the Group's operating expenses over the estimated average service life of the participating employees. The corresponding credits are being accounted for as capital contributions. Upon the completion of sale of New Guoxin on 31 December 2003, the related housing benefits have been correspondingly accounted for with the net assets transferred.

(F) Deferred taxation

The adjustment related to deferred taxation represent the deferred tax effects of other US GAAP adjustments.

(G) Revaluation of property, plant and equipment

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

(H) Impairment of goodwill and long-lived assets

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

(i) Goodwill

Under HK GAAP, goodwill is amortised using the straight-line method over the expected beneficial lives of the acquired bsuinesses.

Under US GAAP, upon the adoption of Statements of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), the Group no longer amortises goodwill but, rather, assesses the goodwill of each identified reporting unit for impairment annually starting from 1 January 2002. Under US GAAP, there was no goodwill as of 31 December 2004 and 2003.

(H) Impairment of goodwill and long-lived assets (continued)

(ii) Long-lived assets

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

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

Based on the above assessment performed and taking into account of the adoption of SFAS 144, no material differences arose in respect of the timing and the amount of impairment for equipment for the years ended 31 December 2004 and 2003.

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

(l) Share option scheme

Under HK GAAP, the proceeds received from the exercise of the share options granted under the fixed award amended Share Option Scheme and Pre-Global Offering Share Option Scheme are to be recognised as an increase to capital upon the exercise of the share options as stated in Note 29 of the financial statements.

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

	2004	2003
Net profit:		
As reported (RMB'000)	**4,712,687**	4,736,121
Less: Total stock-based employee compensation expense determined under fair value based method (RMB' 000)	**(146,541)**	(86,855)
Pro forma (RMB'000)	**4,566,146**	4,649,266
Basic earnings per share:		
As reported (RMB)	**0.375**	0.377
Pro forma (RMB)	**0.364**	0.370
Diluted earnings per share:		
As reported (RMB)	**0.374**	0.377
Pro forma (RMB)	**0.362**	0.370
Basic earnings per ADS:		
As reported (RMB)	**3.752**	3.773
Pro forma (RMB)	**3.635**	3.704
Diluted earnings per ADS:		
As reported (RMB)	**3.738**	3.768
Pro forma (RMB)	**3.622**	3.699

(J) New Accounting Pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment" (" SFAS 123(R)"), which is a revision of SFAS 123 and supersedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosures of the income statement effects of share-based payments is no longer an alternative. SFAS 123(R) is effective for all stock-based awards granted on or after 15 June 2005. In addition, companies must also recognise compensation expense related to any awards that are not fully vested as of 15 June 2005. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS 123 and will be amortised over the remaining vesting period. The Group is currently assessing the impact of adopting SFAS 123(R) to its consolidated operating results and financial position.

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

	Note	2004 RMB'000	2003 RMB'000 As restated
Net profit under HK GAAP		**4,386,999**	4,217,097
Impact of US GAAP adjustments:	(1)		
- Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	**85,476**	88,794
- Effect of acquisition of Unicom New World	(A)	**—**	350,947
- Transaction costs for the acquisition of Unicom New World	(A)	**—**	(49,378)
- Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New World	(A)	**36,507**	—
- Effect of acquisition of Unicom International	(A)	**6,167**	7,698
- Transaction costs for the acquisition of Unicom International	(A)	**(325)**	—
- Deferral of upfront non-refundable revenue	(D)	**(1,275,664)**	(1,417,474)
- Amortisation of upfront non-refundable revenue	(D)	**1,303,683**	1,223,938
- Deferral of direct incremental cost	(D)	**1,273,515**	1,417,474
- Amortisation of direct incremental cost	(D)	**(1,188,804)**	(1,071,450)
- Employee housing benefits	(E)	**(14,942)**	(18,532)
- Reversal of depreciation for revalued property, plant and equipment	(G)	**4,127**	7,485
- Difference in provision for impairment and disposal loss of New Guoxin	(B)	**—**	55,078
- Reversal of differences in provision for impairment loss of equipment upon depreciation and disposal	(H)	**—**	(3,538)
- Deferred tax effects of US GAAP adjustments	(F)	**95,948**	(72,018)
Net profit under US GAAP (as restated in 2003)	(1)	**4,712,687**	4,736,121

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

	Note	The Group 2004 RMB'000	2003 RMB'000 As restated
Shareholders' equity under HK GAAP		**72,810,454**	69,615,490
Impact of US GAAP adjustments:	(1)		
- Effect of acquisition of Unicom New Century	(A)	**(2,052,554)**	(2,052,554)
- Transaction costs for the acquisition of Unicom New Century	(A)	**(109,221)**	(109,221)
- Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	**174,270**	88,794
- Effect of acquisition of Unicom New World	(A)	**(946,370)**	(946,370)
- Transaction costs for the acquisition of Unicom New World	(A)	**(49,378)**	(49,378)
- Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New World	(A)	**36,507**	—
- Effect of acquisition of Unicom International	(A)	**392**	33,641
- Transaction costs for the acquisition of Unicom International	(A)	**(325)**	—
- Deferred upfront non-refundable revenue	(D)	**(7,229,184)**	(5,953,520)
- Accumulated amortisation of upfront non-refundable revenue	(D)	**3,950,147**	2,646,464
- Deferred direct incremental cost	(D)	**6,310,890**	5,037,375
- Accumulated amortisation of direct incremental cost	(D)	**(3,277,136)**	(2,088,332)
- Reversal of revaluation surplus of property, plant and equipment:			
- Cost	(G)	**(82,531)**	(82,531)
- Accumulated depreciation	(G)	**19,478**	15,351
- Deferred tax effects of US GAAP adjustments	(F)	**(113,117)**	(209,065)
Shareholders' equity under US GAAP (as restated in 2003)	(1)	**69,442,322**	65,946,144

Notes:

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

The following summarised the combined results of operations and the financial positions for the separate entities on a combined basis as of and for the years ended 31 December 2004 and 2003, restated to reflect the impact of the effects of the sale of New Guoxin and Acquisitions of entities under common control, which is accounted for at historical cost under US GAAP with prior periods restated as if the entities were always combined, and other differences between HK GAAP and US GAAP.

	The Group (before the acquisition of Unicom International) (Note (a)) RMB'000	Unicom International (Note (b)) RMB'000	Elimination RMB'000	The Group (after the acquisition of Unicom International) RMB'000
As of/for the year ended 31 December 2004				
Results of operations:				
Operating revenue (Turnover)	79,361,238	135,688	(108,612)	79,388,314
Net profit	4,703,312	8,988	387	4,712,687
Basic earnings per share (RMB)	0.374	—	—	0.375
Financial position:				
Non-current assets	128,697,817	64,865	—	128,762,682
Current assets	17,865,977	148,991	(162,776)	17,852,192
Total assets	146,563,794	213,856	(162,776)	146,614,874
Non-current liabilities	31,045,613	3,262	—	31,048,875
Current liabilities	46,118,868	167,972	(163,163)	46,123,677
Total liabilities	77,164,481	171,234	(163,163)	77,172,552
Net assets	69,399,313	42,622	387	69,442,322
As of/for the year ended 31 December 2003				
Results of operations:				
Operating revenue (Turnover)	71,958,253	46,265	(24,208)	71,980,310
Net profit from continuing operations	6,070,263	7,698	—	6,077,961
Net loss from discontinued operation	(1,341,840)	—	—	(1,341,840)
Net profit	4,728,423	7,698	—	4,736,121
Basic earnings per share (RMB)	0.377	—	—	0.377
Financial position:				
Non-current assets	128,169,420	60,621	—	128,230,041
Current assets	22,243,284	97,186	(93,115)	22,247,355
Total assets	150,412,704	157,807	(93,115)	150,477,396
Non-current liabilities	40,593,548	—	—	40,593,548
Current liabilities	43,906,653	124,166	(93,115)	43,937,704
Total liabilities	84,500,201	124,166	(93,115)	84,531,252
Net assets	65,912,503	33,641	—	65,946,144

Note (a): The above balances include the operating results and financial conditions of Unicom New World of the end of and for all periods presented. Further, as described in Note (B) above, New Guoxin was sold to Unicom Group effective on 31 December 2003. As a result, the balance sheet of the Group did not include the financial positions of New Guoxin as of 31 December 2003.

Note (b): The above items represent the operating results and financial conditions of Unicom International for the whole year ended 31 December and as of year end.

Supplemental Financial Information for North American Shareholders

The following are the condensed income statements, changes in shareholders' equity and cash flow information for the years ended 31 December 2004 and 2003, condensed balance sheets information for the Group as of 31 December 2004 and 2003, and additional financial information as of and for the years ended 31 December 2004 and 2003, restated to reflect the impact of the effects of the disposal of New Guoxin and Acquisition of entities under common control which is accounted for at historical cost with retroactive restatement under US GAAP.

Condensed Income Statement

	Note	2004 RMB'000	2003 RMB'000
Operating revenue (Turnover)	(g)	**79,388,314**	71,980,310
Operating expenses:			
Leased lines and network capacities	(g)	**(7,398,429)**	(4,729,159)
Interconnection charges	(g)	**(7,508,866)**	(6,111,437)
Depreciation and amortisation		**(18,944,473)**	(16,757,294)
Personnel		**(4,547,892)**	(4,654,670)
Selling and marketing	(g)	**(18,989,186)**	(16,689,275)
General, administrative and other expenses	(g)	**(10,471,208)**	(9,204,349)
Cost of telecommunications products sold	(g)	**(3,342,797)**	(3,124,558)
Total operating expenses		**(71,202,851)**	(61,270,742)
Operating profit from continuing operations		**8,185,463**	10,709,568
Interest income		**103,441**	170,486
Finance costs		**(1,688,418)**	(2,319,096)
Other income (expenses), net		**95,932**	(29,837)
Profit from continuing operations before taxation and discontinued operation		**6,696,418**	8,531,121
Taxation	(c)	**(1,983,731)**	(2,453,160)
Net profit before discontinued operation		**4,712,687**	6,077,961
Discontinued operations			
- Loss from discontinued operation		**—**	(1,762,222)
- Add: related tax impact		**—**	420,382
Loss from discontinued operation, net of tax		**—**	(1,341,840)
Net profit		**4,712,687**	4,736,121

Condensed Income Statement (continued)

	Note	2004	2003
Basic earnings per share (RMB):			
Earnings per share before discontinued operation	(1)	**0.375**	0.484
Loss from discontinued operation, net of tax		—	(0.107)
Net profit	(1)	**0.375**	0.377
Diluted earnings per share (RMB):			
Earnings per share before discontinued operation	(2)	**0.374**	0.484
Loss from discontinued operation, net of tax		—	(0.107)
Net profit	(2)	**0.374**	0.377
Basic earnings per ADS (RMB):			
Earnings per share before discontinued operation	(1), (3)	**3.752**	4.842
Loss from discontinued operation, net of tax		—	(1.069)
Net profit	(1), (3)	**3.752**	3.773
Diluted earnings per ADS (RMB):			
Earnings per share before discontinued operation	(2), (3)	**3.738**	4.836
Loss from discontinued operation, net of tax		—	(1.068)
Net profit	(2), (3)	**3.738**	3.768

Notes:

(1) Basic earnings per share before or after discontinued operation for the years ended 31 December 2004 and 2003 were computed by dividing the net profit before or after discontinued operation for the financial years under US GAAP by the weighted average number of ordinary shares in issue during the years.

(2) Diluted earnings per share before or after discontinued operation for the years ended 31 December 2004 and 2003 were computed by dividing the net profit before or after discontinued operation under US GAAP by the weighted average number of ordinary shares in issue during the years, after adjusting for the cumulative effects of the dilutive potential ordinary shares. All potential dilutive shares arose from share options granted (i) under the amended Pre-Global Offering Share Option Scheme; and (ii) under the amended Share Option Scheme as described in Note 29. For 2004, all potential dilutive ordinary shares arose from additional share options granted in 2002, 2003 and 2004 under the amended Share Option Scheme (see Note 29), which if converted to ordinary shares would decrease earnings 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.

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

Condensed Balance Sheet

	Note	The Group 2004 RMB'000	2003 RMB'000
Non-current assets:			
Property, plant and equipment, net	(a)	118,700,674	118,170,805
Other assets	(b)	10,062,008	9,936,454
Deferred tax assets	(c)	—	122,782
Total non-current assets		128,762,682	128,230,041
Current assets:			
Current portion of deferred tax assets	(c)	606,009	873,849
Amounts due from Unicom Group		61,401	—
Amounts due from related parties		193,048	176,061
Amounts due from domestic carriers		269,919	184,613
Prepayments and other current assets	(d)	3,059,714	3,156,310
Inventories		3,114,632	2,172,115
Accounts receivable		9,163,487	8,992,234
Less: Provision for doubtful debts		(3,933,507)	(3,498,305)
Accounts receivable, net		5,229,980	5,493,929
Short-term bank deposits		662,025	912,794
Bank balances and cash		4,655,464	9,277,684
Total current assets		17,852,192	22,247,355
Current liabilities:			
Payables and accrued liabilities	(e)	16,785,749	17,127,113
Amounts due to Unicom Group		—	432,047
Amounts due to related parties		5,760	110,272
Amounts due to domestic carriers		948,574	778,841
Current portion of obligations under finance leases		938,189	25,435
Current portion of long-term bank loans	(f)	11,086,305	7,197,877
Taxes payable		395,688	623,929
Advances from customers		7,034,995	6,666,991
Short-term bank loans		8,928,417	10,975,199
Total current liabilities		46,123,677	43,937,704
Net current liabilities		(28,271,485)	(21,690,349)
Total assets less current liabilities		100,491,197	106,539,692

Condensed Balance Sheet (continued)

		The Group	
		2004	2003
	Note	RMB'000	RMB'000
Financed by:			
Shareholders' equity		**69,442,322**	65,946,144
Non-current liabilities:			
Long-term bank loans	(f)	**26,137,188**	36,212,791
Obligations under finance leases		**488,956**	99,719
Deferred revenue		**4,249,733**	4,277,761
Deferred tax liabilities	(c)	**170,420**	—
Other long-term liabilities		**2,578**	3,277
Total non-current liabilities		**31,048,875**	40,593,548
Total liability and shareholders' equity		**100,491,197**	106,539,692

Condensed Statement of Changes in Equity

	RMB'000
Balance at 1 January 2003 as previously reported before adjusting for the acquisition of Unicom International	64,214,996
Adjustment for the acquisition of Unicom International	43,886
Balance at 1 January 2003, as adjusted for the acquisition of Unicom International	64,258,882
Net profit for the year ended 31 December 2003	4,736,121
Deemed capital contribution from owner for employee housing benefits	18,532
Contribution from owner	1,673,693
Deemed capital distribution relating to the payment to Unicom Group for the transfer of Unicom New World	(3,200,000)
Distribution to owner	(286,942)
Dividend paid	(1,255,300)
Exercise of share options	1,158
Balance at 31 December 2003, as adjusted for the acquisition of Unicom International	65,946,144
Net profit for the year ended 31 December 2004	4,712,687
Deemed capital contribution from owner for employee housing benefits	14,942
Deemed capital distribution relating to the payment to Unicom Group for the transfer of Unicom International	(39,416)
Dividend paid	(1,256,160)
Exercise of share options	64,125
Balance at 31 December 2004	69,442,322

Condensed Cash Flow Statement

	The Group	
	2004	2003
	RMB'000	RMB'000
Net cash inflows (outflows) from:		
Operating activities	**24,510,430**	25,992,889
Investing activities	**(19,668,070)**	(20,295,426)
Financing activities	**(9,440,491)**	(11,397,136)
Net decrease in cash and cash equivalents	**(4,598,131)**	(5,699,673)
Cash and cash equivalents, beginning of year	**9,227,684**	14,927,357
Cash and cash equivalents, end of year	**4,629,553**	9,227,684
Interest paid (net of amount capitalised)	**(1,662,419)**	(2,322,892)

Supplemental Information

Payables to equipment suppliers for construction-in-progress during 2004 decreased by approximately RMB 775 million (2003: approximately RMB3,799 million).

(a) Property, Plant and Equipment, net

	The Group	
	2004	2003
	RMB'000	RMB'000
Buildings	**15,395,232**	12,800,363
Telecommunication equipment	**128,797,453**	116,385,370
Office furniture, fixtures and others	**5,103,469**	4,498,081
Leasehold improvements	**1,112,408**	1,057,051
Construction-in-progress	**23,694,508**	21,743,621
	174,103,070	156,484,486
Less: Accumulated depreciation	**(55,402,396)**	(38,313,681)
	118,700,674	118,170,805

(b) Other Assets

	The Group 2004 RMB'000	2003 RMB'000
Inter-connection facilitates	**441,968**	629,595
Deferred direct incremental costs	**7,738,673**	6,465,485
Other	**1,852,818**	1,588,851
	10,033,459	8,683,931
Less: Accumulated amortisation	**(6,161,207)**	(3,860,502)
	3,872,252	4,823,429
Prepaid rental and leased line	**2,305,071**	1,201,375
Deferred customer acquisition costs of contractual CDMA subscribers	**3,884,685**	3,911,650
	10,062,008	9,936,454

(c) Taxation

Detailed description of the assessment basis of income tax liability of the Group were set forth in Note 14 of the financial statements.

The income tax liability of Unicom International was assessed as follows:

(i) For the years ended 31 December 2004 and 2003, Unicom International was assessed at the tax rate of 17.5% in Hong Kong. Its subsidiary Unicom USA is assessed at the tax rate of 8.84% in United States; and

(ii) Unicom International had no Hong Kong tax liability for the years ended 31 December 2004 and 2003 as it did not have any assessable income sourced from Hong Kong after offset prior year's accumulated tax loss.

The components of income tax are as follows:

	2004 RMB'000	2003 RMB'000
Provision for PRC enterprise income tax of the estimated taxable profit for the year	**1,422,689**	1,078,096
Deferred taxation	**561,042**	954,682
	1,983,731	2,032,778

Supplemental Information (continued)

(c) Taxation (continued)

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

	2004	2003
PRC		
Statutory tax rate of 33%	33%	33%
Non-deductible expenses:		
- Housing benefits	0.1	—
- Personnel expenses	0.4	—
- Selling and marketing expenses	0.3	—
- Other	1.2	0.6
Additional expenses for tax deductible purposes:		
- Interest on loans from CCF joint ventures	—	(0.3)
- Depreciation expenses	—	(0.1)
- Monetary housing benefits	—	(0.8)
Effect of preferential tax rates	(2.0)	(2.1)
Tax credits	(2.3)	—
Increase in opening deferred tax asset resulting from an increase in tax rate	(0.4)	(2.1)
Write-off deferred tax assets previously recognised for New Guoxin	—	1.8
Effective PRC income tax rate	30.3%	30.0%
Effective HK income tax rate	8.7%	—
Total overall effective income tax rate	29.6%	30.1%

Effect of preferential tax rates is as follows:

	2004	2003
Aggregate amount (RMB in millions)	135	143
Per share effect (RMB)	0.011	0.011

The movement of deferred tax assets is as follows:

	2004 RMB'000	2003 RMB'000
Balance, beginning of year	996,631	1,955,485
Deferred taxation charged to income statement	(561,042)	(954,682)
Deferred taxation charged to sale of New Guoxin	—	(4,172)
Balance, end of year	435,589	996,631

Supplemental Information (continued)

(c) Taxation (continued)

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Non-current deferred tax assets:		
Net amount of deferral and amortisation of upfront non-refundable revenue and incremental costs	**1,187,448**	1,063,541
Interest on loans from CCF joint ventures	**150,954**	256,673
Loss arising from terminations of CCF Arrangements	**174,637**	236,249
Provision for impairment loss of property, plant and equipment	**4,721**	4,875
Write-off of other assets	**—**	7,563
Amortisation of retirement benefits	**—**	18,549
Additional depreciation deductible for tax purpose	**18,258**	101,267
Differences in tax basis of the residual value of the property, plant and equipment	**10,045**	7,608
Other	**197**	24,497
	1,546,260	1,720,822
Less: Valuation allowance	**—**	—
	1,546,260	1,720,822
Non-current deferred tax liabilities:		
Net amount of deferral and amortisation of upfront non-refundable revenue and incremental costs	**(1,291,528)**	(1,263,560)
Change of depreciation period	**(26,280)**	(30,367)
Capitalised interest already deducted for tax purposes	**(398,872)**	(304,113)
	(1,716,680)	(1,598,040)
Net non-current deferred tax (liabilities)/assets	**(170,420)**	122,782
Current portion of deferred tax assets		
Income tax on advances from customers for telephone cards	**—**	261,467
Write-down of inventory to net realisable value	**39,103**	15,905
Provision for doubtful debts of Cellular Business	**526,514**	534,839
Monetary housing benefits	**17,171**	56,826
Other	**23,221**	4,812
	606,009	873,849
Total	**435,589**	996,631

Supplemental Information (continued)

(d) Prepayment and Other Current Assets

	The Group	
	2004	2003
	RMB'000	RMB'000
Prepaid rental	**277,999**	233,461
Deposits and prepayments	**1,351,022**	1,633,199
Interest receivables	**1,414**	4,872
Advances to employees	**164,386**	164,495
Deferred customer acquisition costs of contractual CDMA subscribers	**860,225**	535,521
Others	**404,668**	584,762
	3,059,714	3,156,310

(e) Payables and Accrued Liabilities

	The Group	
	2004	2003
	RMB'000	RMB'000
Payables to contractors and equipment suppliers	**10,592,518**	11,811,532
Accrued expenses	**1,355,183**	1,418,034
Payables to telecommunications products suppliers	**1,772,693**	1,352,307
Customer deposits	**1,370,015**	1,199,532
Salary and welfare payables	**465,154**	494,794
Amounts due to Service Providers/Content Providers	**573,804**	369,330
Other	**656,382**	481,584
	16,785,749	17,127,113

Supplemental Information (continued)

(f) Long-term Bank Loans

	Interest rate and final maturity	The Group 2004 RMB'000	The Group 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)		
- 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	**9,931,800**	5,793,690
		37,223,493	43,410,668
Less: Current portion		**(11,086,305)**	(7,197,877)
		26,137,188	36,212,791

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

	The Group 2004 RMB'000	The Group 2003 RMB'000
Balances due:		
- 2004	**—**	7,197,877
- 2005	**11,086,305**	15,549,832
- 2006	**10,226,776**	11,700,060
- 2007	**10,439,494**	3,020,930
- 2008	**2,639,490**	4,116,570
- 2009	**1,013,808**	1,825,399
- Thereafter	**1,817,620**	—
	37,223,493	43,410,668
Less: Portion classified as current liabilities	**(11,086,305)**	(7,197,877)
	26,137,188	36,212,791

Supplemental Information (continued)

(f) Long-term Bank Loans (continued)

As of 31 December 2004, long-term bank loans 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 RMB 2,824 million (2003: RMB3,600 million) was also guaranteed by Unicom Group;

(ii) Approximately RMB3,955 million (2003: RMB8,004 million) of long-term bank loans were guaranteed by Unicom Group; and

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

(g) Related Party Transactions

	2004 RMB'000	2003 RMB'000
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenues	**212,292**	155,464
Interconnection and roaming charges	**56,171**	47,615
Charge for cellular subscriber value-added service	**858,778**	—
Charge for customer services	**524,718**	—
Charge for cellular subscriber value-added service by UNISK	**4,228**	—
Rental charges for premises, equipment and facilities	**25,528**	17,936
Rental income for premises and facilities	**19,475**	—
Constructed capacity related cost of CDMA network	**305,903**	—
Revenue for leasing of transmission line capacity	**24,822**	10,717
Sales of CDMA handsets	**—**	23,484
Purchase of CDMA handsets	**14,655**	—
Charges for the international gateway services	**17,062**	8,631
Leasing of satellite transmission capacity	**14,152**	26,400
Purchase of telecom cards	**1,087,498**	1,326,641
CDMA network capacity lease rental	**6,588,926**	3,909,148
Agency fee incurred for subscriber development	**9,054**	—
Agency fee incurred for procurement of telecommunications equipment	**17,759**	20,705

Detail description of the nature and terms of the related party transactions are set forth in Note 30 of this financial statement.

Movement of Significant Provisions

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Balance, beginning of year	**—**	107,299
Provision for the year	**—**	—
Disposal of New Guoxin	**—**	(107,299)
Balance, end of year	**—**	—

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

	The Group	
	2004	2003
	RMB'000	RMB'000
Balance, beginning of year	**3,498,305**	1,901,752
Provision for the year	**2,191,780**	2,019,470
Written-off for the year	**(1,756,578)**	(358,253)
Disposal of New Guoxin	**—**	(64,664)
Balance, end of year	**3,933,507**	3,498,305

(c) Other than those described in the above notes, there was no other significant movement of provisions for the years ended 31 December 2004 and 2003.

Comprehensive Income Statement

According to SFAS No.130 "Reporting of Comprehensive Income", certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. For the years ended 31 December 2004 and 2003, apart from the net profit, there was no other comprehensive income which should be included in the statement of comprehensive income.

Share Option Sheme

As disclosed in Note 29, information relating to the share options outstanding under the amended Pre-Global Offering Share Option Scheme and Share Option Scheme as of 31 December 2004 and 2003 is as follows:

	2004		2003	
	Options outstanding	Weighted average exercise price HK$	Options outstanding	Weighted average exercise price HK$
Outstanding, beginning of year	**172,367,400**	**6.72**	69,868,600	10.66
Granted during the year	**113,322,000**	**5.92**	105,956,000	4.30
Exercised during the year	**(10,320,000)**	**5.85**	(176,000)	6.18
Cancelled during the year	**(1,306,000)**	**4.30**	(3,281,200)	12.26
Outstanding, end of year	**274,063,400**	**6.45**	172,367,400	6.72

As of 31 December 2004, 87,611,360 share options (2003: 45,947,320 share options) were exercisable and the weighted average exercise price was HK$ 8.69 (2003: HK$12.65). Also, as of 31 December 2004, weighted average remaining contractual life of the options outstanding was approximately 4.9 years (2003: approximately 5.5 years).

The SFAS 123 method of accounting is based on several assumptions and should not be viewed as indicative of the operation of the Company in future periods. The estimated fair value of each option granted to the employees of the Group on the date of grant is estimated to be HK$1.54 and HK$1.26 for 2004 and 2003 respectively using the Black-Scholes option pricing method with the assumptions as follows:

	2004	2003
Estimated fair value (in HK dollars)	**HK$1.54**	HK$1.26
Risk free interest rate	**3%**	3%
Expected life (in years)	**3**	3
Expected dividend yield	**2%**	2%
Volatility	**40%**	35%

Had the compensation costs for the plans been determined based on the estimated fair value at the grant dates for awards under the plan consistent with the method of SFAS 123, the Group's net profit and earnings per share under US GAAP on a pro forma basis for the years ended 31 December 2004 and 2003 are disclosed in the aforementioned Note (l).