

# Notes to the Unaudited Condensed Consolidated Interim Accounts

*(Amounts expressed in RMB unless otherwise stated)*

## 1. PRINCIPAL ACTIVITIES

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”). The condensed consolidated interim accounts are unaudited but have been reviewed by the Audit Committee of the Company.

The unaudited condensed consolidated interim accounts include the financial information of the Company and its subsidiaries. These condensed consolidated interim accounts should be read in conjunction with the 2002 annual report. The details of the Company’s subsidiaries are set out in Note 23 to the audited financial statements included in its 2002 annual report.

In 2002, the Company acquired the entire interests of Unicom New Century Telecommunications Corporation Limited (a limited liability company established in the PRC, hereinafter referred to as “Unicom New Century”), from its ultimate parent company, China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to as “Unicom Group”). For details of this acquisition, see Note 31 to this interim accounts. The Company has adopted the purchase method of accounting for this acquisition, and the identifiable assets and liabilities acquired were recorded based on their respective fair values as of 31 December 2002. The excess of the purchase consideration over the fair value of the net assets acquired has been recorded as goodwill, which is amortised using the straight-line method over a period of 20 years. The effective date of this acquisition was 31 December 2002, accordingly, the operating results of Unicom New Century have been included in the condensed consolidated income statement of the Group for the six months ended 30 June 2003. Details of the acquisition have already been set forth in the shareholder’s circular “Connected Transactions and Renewal of Waiver for Existing Connected Transactions” of the Company issued on 29 November 2002 and the Company’s 2002 annual report.

The accounting policies adopted in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual report for the year ended 31 December 2002 except the Group has changed its accounting policies following the adoption of SSAP 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA, which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

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

As detailed in the unaudited condensed consolidated statement of changes in equity, the change in the accounting policy has resulted in an increase of opening retained profits as of 1 January 2003 and 2002 by approximately RMB405,300,000 and RMB373,159,000, respectively, which represented the deferred tax assets relating to the provision for doubtful debts previously not recognised. This change has resulted in an increase in deferred tax assets at 1 January 2003 by approximately RMB405,300,000. The profit for the six months ended 30 June 2002 has also been reduced by approximately RMB114,775,000.

In addition, the adoption of SSAP 12 also resulted in an increase of the deferred tax assets of Unicom New Century as of 31 December 2002 by approximately RMB80,448,000, which had reduced the goodwill recorded by the Group arising from the acquisition of Unicom New Century on 31 December 2002 accordingly.

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

## 3. OPERATING REVENUE

Operating revenue primarily comprises usage fees, monthly fees, interconnection revenue, leased line rental income and sales of telecommunication 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 regulatory authorities.

Operating revenue is net of business tax and government surcharges.

#### 4. PROFIT BEFORE TAXATION

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

	Note	Unaudited Six months ended 30 June 2003 RMB'000	2002 RMB'000
<b>After charging/(crediting):</b>			
Share of losses from associated companies	7	—	1,312
Dividends from investment securities	7	(2,531)	(5,981)
Realised gains on trading securities	7	(7,902)	(1,569)
Unrealised gains on trading securities	7	(14,489)	(15,117)
Realised gains on investment securities	7	(3,345)	(385)
Interest income		(104,909)	(266,658)
Interest expense:	6	1,295,232	972,277
Less: amounts capitalised in construction-in-progress	6	(290,870)	(237,286)
Total interest expenses	6	1,004,362	734,991
Depreciation:			
- Assets held under finance leases	17	6,077	4,844
- Other assets		7,842,294	5,080,057
Total depreciation	17	7,848,371	5,084,901
Amortisation of goodwill	18	58,140	22,409
Amortisation of deferred customer acquisition costs of contractual CDMA subscribers	16(a)	3,104,225	65,796
Other amortisation	19	272,924	240,688
Total amortisation of other assets		3,377,149	306,484
Loss on disposal of property, plant and equipment	5	46,011	70,241

#### 4. PROFIT BEFORE TAXATION (continued)

	Note	Unaudited Six months ended 30 June 2003 RMB'000	2002 RMB'000
<b>After charging/(crediting):</b>			
Operating lease expense:			
- Leased lines		403,716	368,289
- CDMA network capacities	28(a)	1,548,493	368,671
- Other leasing expense	5	412,747	272,131
Total operating lease expense		2,364,956	1,009,091
Provision (write-back) for doubtful debts:			
- GSM Business		628,731	472,342
- CDMA Business		160,417	5,850
- Data and Internet Business		31,873	26,571
- Long Distance Business		26,944	22,312
- Paging Business		6,989	(323)
Total provision for doubtful debts	5	854,954	526,752
Cost of inventories		1,401,982	1,127,242
Write-down of inventories to net realisable value		25,308	2,821
(Reversal of) provision for impairment in value of investments in:			
- Associated companies	21	—	(5,663)
- Investment securities	20	—	650
Total provision for impairment in investments		—	(5,013)
Personnel:			
- Salaries and wages		1,738,736	996,198
- Contributions to defined contribution pension schemes	9	151,245	88,733
- Special monetary housing benefits	10	90,724	170,570
- Contributions to other housing fund		81,421	50,148
- Other housing benefits		162,222	103,613
Total personnel		2,224,348	1,409,262
Additional provision for impairment of property, plant and equipment	5, 17	535,068	—
Net exchange (gains) losses	7	(1,015)	21,018

## 5. GENERAL, ADMINISTRATIVE AND OTHER EXPENSES

	Unaudited Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Operating lease rental expenses	412,747	272,131
Repair and maintenance expenses	608,690	280,095
Provision for doubtful debts	854,954	526,752
Loss on disposal of property, plant and equipment	46,011	70,241
Provisions for impairment of property, plant and equipment:		
- Paging business (Note 17)	528,038	—
- Others	7,030	—
Traveling, entertainment and meeting expenses	500,769	136,486
Power and water charges	512,686	291,757
Office expenses	460,587	294,124
Other	657,650	663,950
	4,589,162	2,535,536

## 6. FINANCE COSTS

	Unaudited Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Interest on bank loans repayable over 5 years	25,754	—
Interest on bank loans repayable within 5 years	1,269,478	972,277
Less: Amounts capitalised in construction-in-progress	(290,870)	(237,286)
Total interest expenses	1,004,362	734,991
Bank charges	14,982	26,276
	1,019,344	761,267

## 7. OTHER EXPENSES (INCOME), NET

	Unaudited Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Share of losses from associated companies	—	1,312
Dividends from investment securities	(2,531)	(5,981)
Realised gains on trading securities	(7,902)	(1,569)
Unrealised gains on trading securities	(14,489)	(15,117)
Realised gains on investment securities	(3,345)	(385)
(Gains) losses from exchange difference	(1,015)	21,018
Other	39,267	(41,436)
	9,985	(42,158)

## 8. TAXATION

Provision for taxation represents:

	Note	Unaudited Six months ended 30 June 2003 RMB'000	As restated 2002 RMB'000 (Note 2)
Provision for PRC enterprise income tax on the estimated taxable profits for the period		1,092,848	337,395
Deferred taxation	2	(126,678)	506,039
		966,170	843,434

There is no Hong Kong profits tax liability as the Group did not have any assessable income sourced from Hong Kong for the six months ended 30 June 2003 and 2002.

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

- (a) The tax liabilities of China Unicom Corporation Limited (the Company's principal subsidiary in the PRC, hereinafter referred to as "CUCL") and its wholly-owned subsidiaries for the six months ended 30 June 2003 and 2002 were assessed in accordance with FIE ("Foreign Investment Enterprises") taxation requirements and on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing as approved by the tax authority;
- (b) The tax liabilities of Unicom New Century for the six months ended 30 June 2003 was assessed in accordance with FIE taxation requirements on a consolidated basis as a single entity; and
- (c) Various provincial branches/municipal cities of CUCL and Unicom New Century were granted a preferential treatment by tax authorities to assess their enterprise income tax at a rate of 15%. The remaining provincial branches were assessed at a tax rate of 33%.

## 8. TAXATION (continued)

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

	Unaudited Six months ended 30 June	
	2003	2002
<b>PRC</b>		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses	0.4	3.5
Effect of preferential tax rates	(4.7)	(4.6)
Investment tax credits (Note (a))	—	(2.0)
Effective PRC income tax rate	28.7%	29.9%
<b>Hong Kong</b>		
Statutory tax rate of 17.5% (2002: 16.0%)	17.5%	16.0%
Non-taxable income:		
- Interest income	(17.5)	(16.0)
Effective HK income tax rate	—	—
Total overall effective income tax rate	28.8%	28.3%

Tax effect of preferential tax rate is as follows:

	Unaudited Six months ended 30 June	
	2003	2002
Aggregate amount (RMB in millions)	157.9	129.6
Per share effect (RMB)	0.013	0.010

Notes:

- (a) For the six months ended 30 June 2002, investment tax credits represented the tax credits relating to the additions of certain domestic equipment that were deductible against current income tax having obtained the tax approvals.

## 8. TAXATION (continued)

The movement of the deferred tax assets is as follows:

	Note	Unaudited Six months ended 30 June 2003 RMB'000	Audited As restated Year 2002 RMB'000 (Note 2)
Balance, beginning of period		1,815,234	1,581,408
Acquisition of Unicom New Century		—	307,623
Deferred taxation credited/ (charged) to income statement		126,678	(559,545)
Change in accounting policy:			
- Recognition of additional deferred tax assets in relation to provision for doubtful debts	2	—	485,748
Balance, end of period		1,941,912	1,815,234

Deferred taxation as of period-end represented the taxation effect of the following temporary differences:

	Unaudited 30 June 2003 RMB'000	Audited As restated 31 December 2002 RMB'000 (Note 2)
Deferred tax assets:		
Interest on loans from CCF joint ventures	235,859	287,998
Loss arising from terminations of CCF Arrangements	286,943	309,813
Income tax on advances from customers for telephone cards	319,725	471,657
Provision for impairment loss for property, plant and equipment	294,781	112,994
Provision for impairment loss for goodwill and difference in amortisation period	35,925	40,498
Provision for doubtful debts of Paging Business	16,740	38,673
Provision for doubtful debts of Cellular Business	718,310	485,748
Write-off of other assets to income statement	12,178	17,662
Write-down of inventories to net realizable value	39,675	31,260
Amortisation of retirement benefits	37,654	37,379
Additional depreciation deductible for tax purpose	124,596	171,091
Differences on tax basis for the residual value of property, plant and equipment	34,696	19,634
Other	91,020	68,152
	2,248,102	2,092,559
Deferred tax liabilities:		
Accelerated depreciation for tax purpose	(56,920)	(76,468)
Capitalised interest already deducted for tax purpose	(249,270)	(200,857)
	(306,190)	(277,325)
Net deferred tax assets	1,941,912	1,815,234
Less: Current portion of deferred tax assets	(1,116,638)	(988,666)
	825,274	826,568



## 9. 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 six months ended 30 June 2003 (2002: 19%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions. For the six months ended 30 June 2003, accrued retirement benefit contributions amounted to approximately RMB151,245,000 (2002: RMB88,733,000).

## 10. HOUSING BENEFITS

In 2001, the Group finalised its monetary housing benefit scheme as a special employee incentive scheme for all qualified employees.

For the six months ended 30 June 2003 and 2002, certain provinces were expected to achieve the annual performance budget and thus were 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 six months ended 30 June 2003 and 2002 amounted to approximately RMB90,724,000 and RMB170,570,000 respectively. The remaining provinces have not accrued for these special monetary housing benefits since they are not expected to achieve their annual performance budget in 2003 and accordingly no provision for such benefits was made.

## 11. DISTRIBUTION OF PROFITS ATTRIBUTABLE TO SHAREHOLDERS

- (a) At the annual general meeting held on 12 May 2003, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2002 totalling RMB1,255,299,607 (2002: Nil) which has been reflected as an appropriation of retained profits for the six months ended 30 June 2003. As of 30 June 2003, such dividends have been fully paid by the Company.
- (b) As stated in Note 2, the change in accounting policy on income taxes has resulted in an increase of distributable reserves to shareholders of CUCL for the year ended 31 December 2002 and 2001 respectively. As result, CUCL appropriated additional statutory reserves amounting to approximately RMB40,530,000 in 2003 (2002: RMB37,316,000).
- (c) During the six months ended 30 June 2003, the Group has not made any appropriation to reserves or declared any dividends to the shareholders (2002: Nil).

## 12. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2003 and 2002 were computed by dividing the profit attributable to shareholders of approximately RMB2,385,273,000 and RMB2,136,755,000 (restated) respectively, by the weighted average number of 12,552,996,070 ordinary shares in issue during the periods.

Diluted earnings per share for the six months ended 30 June 2003 and 2002 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the periods, after adjusting for the effects of the potential dilutive ordinary shares. All potential dilutive shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme (see Note 27).

There was no dilution of earnings per share for both periods after taking into account the dilutive effect of the share options. For the six months ended 30 June 2003, anti-dilutive shares arising from the share options of approximately 60,735,000 shares (2002: 33,841,000 shares) were not included in the calculation of diluted earnings per share.

## 13. TRADING SECURITIES

Trading securities represented listed equity securities in the PRC, which are carried at fair value. The realised gains on trading securities for the six months ended 30 June 2003 amounted to approximately RMB7,902,000 (2002: RMB1,569,000) and the unrealised gains amounted to RMB14,489,000 (2002: RMB15,117,000). There have been no significant changes in the fair values of the listed securities after the balance sheet date.

## 14. ACCOUNTS RECEIVABLE, NET

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Accounts receivable for GSM services	4,403,567	3,920,821
Accounts receivable for CDMA services	1,253,657	1,004,754
Accounts receivable for Data and Internet services	522,445	410,479
Accounts receivable for Long Distance services	496,867	543,838
Accounts receivable for Paging services	176,742	181,348
Sub-total	6,853,278	6,061,240
Less: Provision for doubtful debts for GSM services	(2,005,538)	(1,466,803)
Provision for doubtful debts for CDMA services	(223,194)	(62,821)
Provision for doubtful debts for Data and Internet services	(130,902)	(99,214)
Provision for doubtful debts for Long Distance services	(87,022)	(60,176)
Provision for doubtful debts for Paging Business	(41,084)	(44,958)
	4,365,538	4,327,268

#### 14. ACCOUNTS RECEIVABLE, NET (continued)

The aging analysis of accounts receivable was as follows:

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Not yet due within credit period	3,211,353	2,818,296
Due within three months	1,407,029	1,311,930
Three months to six months	434,464	464,750
Six months to one year	498,961	769,718
More than one year	1,301,471	696,546
	6,853,278	6,061,240

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

Provision for doubtful debts was analysed as follows:

	Unaudited 30 June 2003 RMB'000	Audited Year 2002 RMB'000
Balance, beginning of period	1,733,972	1,005,937
Provision for the period	854,954	971,989
Acquisition of Unicom New Century	—	327,936
Written-off for the period	(101,186)	(571,890)
Balance, end of period	2,487,740	1,733,972

#### 15. INVENTORIES

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Handsets	864,657	2,357,577
Telephone cards	801,223	672,728
Pagers	64,655	77,134
Other	146,100	122,464
	1,876,635	3,229,903

## 16. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Prepaid rental		169,202	85,185
Deposits and prepayments		1,552,503	1,069,939
Interest receivable		17,489	37,780
Advances to employees		157,044	106,749
Deferred customer acquisition costs of certain contractual CDMA subscribers	(a)	491,742	508,596
Other		597,535	765,515
		2,985,515	2,573,764

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

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Within one year	2,641,105	2,227,594
Over one year	344,410	346,170
	2,985,515	2,573,764

Notes:

- (a) As part of the arrangement with certain CDMA contractual subscribers under special promotion packages, CDMA mobile phone handsets were provided to certain subscribers for their use at no additional cost 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 six months ended 30 June 2003, amortisation of these deferred customer acquisition costs amounted to approximately RMB3,104 million (2002: RMB66 million), which was recorded in "selling and marketing" expenses. As of 30 June 2003, the carrying amount of unamortised deferred customer acquisition costs totaled approximately RMB5,733 million, with approximately RMB492 million (2002: RMB509 million) recorded in "prepayment and other current assets" (for contract period within 1 year) and with approximately RMB5,241 million (2002: RMB5,474 million) recorded in "other assets" (for contract period over 1 year) (See Note 19).

As of 30 June 2003, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB2,190 million (2002: RMB2,775 million).

## 17. PROPERTY, PLANT AND EQUIPMENT, NET

	Unaudited Six months ended 30 June 2003					Audited Year 2002	
	Land use rights and buildings RMB'000	Telecommu- nications 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 period	10,355,012	102,924,638	4,671,149	947,561	19,419,349	138,317,709	96,074,270
Additions	42,769	111,645	68,482	8,717	8,200,833	8,432,446	19,365,121
Acquisition of Unicom New Century	—	—	—	—	—	—	23,330,775
Transfer from CIP	718,729	4,858,452	349,987	14,421	(5,941,589)	—	—
Disposals	(11,267)	(300,631)	(168,007)	(17,152)	—	(497,057)	(452,457)
End of period	11,105,243	107,594,104	4,921,611	953,547	21,678,593	146,253,098	138,317,709
Representing:							
At cost	8,402,163	107,594,104	4,921,611	953,547	21,678,593	143,550,018	135,614,629
At valuation	2,703,080	—	—	—	—	2,703,080	2,703,080
	11,105,243	107,594,104	4,921,611	953,547	21,678,593	146,253,098	138,317,709
Accumulated depreciation and impairment:							
Beginning of period	1,067,005	27,665,564	1,667,089	416,875	14,547	30,831,080	20,325,835
Charge for the period	270,534	7,091,988	406,273	79,576	—	7,848,371	10,850,681
Impairment losses	—	526,030	—	—	9,038	535,068	—
Disposals	(1,098)	(270,951)	(153,796)	(17,152)	—	(442,997)	(345,436)
End of period	1,336,441	35,012,631	1,919,566	479,299	23,585	38,771,522	30,831,080
Net book value:							
End of period	9,768,802	72,581,473	3,002,045	474,248	21,655,008	107,481,576	107,486,629
Beginning of year	9,288,007	75,259,074	3,004,060	530,686	19,404,802	107,486,629	75,748,435

There was no property, plant and equipment pledged to banks as loan security as of 30 June 2003 (2002: Nil).

As of 30 June 2003, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB2,491 million (2002: RMB4,164 million) have been included in construction-in-progress.

For the six months ended 30 June 2003, interest of approximately RMB291 million (2002: RMB237 million) was capitalised to construction-in-progress.

As of 30 June 2003, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB473 million and RMB84 million respectively (2002: RMB348 million and RMB77 million).

## 17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Land use rights and buildings of the Group as of 31 March 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB4.4 million for the six months ended 30 June 2003 (2002: RMB4.4 million). The revaluation deficit was charged to the income statement during the year ended 31 December 2000. As of 30 June 2003, for these land use right and buildings stated at revalued amounts, their carrying amount would have been approximately RMB1,979 million (2002: RMB2,032 million) had they been carried at cost less accumulated depreciation.

As of 30 June 2003, net book value of telecommunications equipment held under finance leases amounted to approximately RMB153 million (2002: RMB159 million).

Impairment of assets for the Paging Business:

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

Based on the updated analysis and the worsening trend of the decline of the traditional paging business in the first half of 2003, despite the continuous growth of new value-added paging businesses, the Group expected that the related incremental future cash inflows to be generated from these new paging services could unlikely offset the effects of the rapid decline of the traditional paging business in future. Consequently, based on the latest estimate of the discounted future net cash flows expected to arise from the continuing operations of the Paging Business, after considering the unexpected rapid decline of the traditional paging business in the first half of 2003, the Group concluded that the carrying amount of paging assets as of 30 June 2003 had exceeded their expected recoverable amounts. Accordingly, the Group has recorded an additional impairment loss for property, plant and equipment of the Paging Business amounting to approximately RMB528 million for the six months ended 30 June 2003 (2002: Nil). As of 30 June 2003, the balance of provision for impairment loss for the property, plant and equipment of Paging Business amounted to RMB1,001 million (2002: RMB473 million).

In addition, the Group has also recognised losses on disposal of property, plant and equipment of approximately RMB46 million for the six months ended 30 June 2003 (2002: RMB70 million).

## 18. GOODWILL

	Unaudited 30 June 2003 RMB'000	Audited As restated 31 December 2002 RMB'000 (Note 2)
Cost	525,431	525,431
Goodwill arising from acquisition of the Unicom New Century (Note 2)	2,284,749	2,284,749
	2,810,180	2,810,180
Less: Accumulated amortisation	(379,852)	(321,712)
Impairment losses	(202,697)	(202,697)
	2,227,631	2,285,771

In 2002, goodwill arising from the acquisition represented the excess of costs of investment in Unicom New Century of RMB4,909 million over the fair value of the net assets acquired amounting to RMB2,624 million as of 31 December 2002. Such goodwill is amortised over 20 years on a straight-line method based on the estimated economic beneficial period.

Prior to 2002, goodwill represented the excess of purchase consideration over the fair values of the separately identifiable assets acquired by Guoxin Paging Corporation Ltd. (a subsidiary of the CUCL, "Guoxin") for (i) certain local Paging Businesses during its restructuring in 1998 and (ii) minority interests in the provincial subsidiaries of Guoxin.

The amortisation charge of goodwill for the six months ended 30 June 2003 amounted to approximately RMB58,140,000 (2002: RMB22,409,000).

## 19. OTHER ASSETS

	Note	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Interconnection facilities		538,521	568,099
Prepaid rental and leased line		1,473,665	1,405,431
Other		951,667	869,558
		2,963,853	2,843,088
Less: Accumulated amortisation		(1,441,407)	(1,299,029)
		1,522,446	1,544,059
Deferred customer acquisition costs of certain contractual CDMA subscribers	16(a)	5,241,034	5,474,164
		6,763,480	7,018,223

Amortisation of other assets, excluding deferred customer acquisition costs, for the six months ended 30 June 2003 amounted to approximately RMB272,924,000 (2002: RMB174,892,000).

## 20. INVESTMENT SECURITIES

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Unlisted equity securities in the PRC, at cost	109,160	111,863
Less: Provision for impairment in losses	(6,215)	(6,215)
	102,945	105,648

## 21. INVESTMENT IN ASSOCIATED COMPANIES

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Cost	41,656	37,036
Share of net assets	(16,618)	(11,998)
	25,038	25,038
Less: Provision for impairment in losses	(21,224)	(21,224)
	3,814	3,814

Full provision for impairment of investment in certain associated companies was made in 2001 when the Group judged that the recoverable amount of these investments would be minimal based on the estimated discounted future net cash flows of the investments. In view of the persistent poor operating results of these associated companies, management concluded that the impairments had not been temporary.

## 22. PAYABLES AND ACCRUED LIABILITIES

	Note	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Payables to contractors and equipment suppliers		11,101,008	13,703,912
Accrued expenses		1,346,939	1,139,645
Payables to telecommunications products suppliers		1,600,194	2,395,928
Customer deposits		926,246	784,156
Salary and welfare payables		941,402	775,668
Other	(a)	717,481	1,012,652
		16,633,270	19,811,961

Note:

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

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

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Less than six months	9,956,876	14,887,342
Six months to one year	4,029,460	2,521,886
More than one year	2,646,934	2,402,733
	16,633,270	19,811,961



## 23. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.54% to 5.31% per annum for the six months ended 31 June 2003 (2002: 4.54% to 5.56% per annum).

As of 30 June 2003, short-term bank loans of approximately RMB90 million (2002: RMB463 million) were guaranteed by Unicom Group.

As of 30 June 2003, short-term bank loans of approximately RMB209 million (2002: RMB209 million) were secured by the future service fee revenue to be generated by the cellular operations.

## 24. LONG-TERM BANK LOANS

	Interest rate and final maturity	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Renminbi denominated bank loans	Fixed interest rate ranging from 4.78% to 6.03% (2002: 4.54% to 6.24%) per annum with maturity through 2008 (2002: maturity through 2008)		
- secured		15,805,222	24,627,646
- unsecured		20,687,276	18,518,021
		36,492,498	43,145,667

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

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Balances due:		
- not later than one year	6,355,286	5,459,505
- later than one year and not later than two years	13,148,556	4,825,581
- later than two years and not later than five years	16,661,016	32,581,222
Thereafter	327,640	279,359
	36,492,498	43,145,667
Less: Portion classified as current liabilities	(6,355,286)	(5,459,505)
	30,137,212	37,686,162

As of 30 June 2003, long-term bank loans were secured by the following:

- (i) approximately RMB15,485 million (2002: RMB24,308 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches and RMB2,515 million (2002: RMB3,471 million) of which was also guaranteed by Unicom Group;
- (ii) approximately RMB320 million (2002: RMB320 million) of long-term bank loans were secured by certain bank accounts of the Group; and
- (iii) in addition to the above, approximately RMB7,862 million (2002: RMB9,164 million) of long-term bank loans above were guaranteed by Unicom Group.

## 25. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Total minimum lease payments under finance leases repayable:		
- not later than one year	21,605	17,284
- later than one year and not later than five years	34,659	34,659
- later than five years	150,074	154,395
	206,338	206,338
Less: Future finance charges	(84,713)	(88,243)
Present value of minimum obligations	121,625	118,095
Representing obligations under finance leases:		
- current liabilities	21,114	16,793
- non-current liabilities	100,511	101,302
	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
The present value of obligations under finance leases:		
- not later than one year	21,114	16,793
- later than one year and not later than five years	28,224	28,224
- later than five years	72,287	73,078
	121,625	118,095
Less: Portion classified as current liabilities	(21,114)	(16,793)
	100,511	101,302

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

## 26. SHARE CAPITAL

				Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Authorised:					
30,000,000,000 ordinary shares of HK\$ 0.1 each				3,000,000	3,000,000
		Unaudited 30 June 2003		Audited 31 December 2002	
	Number of shares (‘000)	HK\$'000	RMB equivalent RMB'000	Number of shares (‘000)	RMB equivalent RMB'000
Issued and fully paid:					
Unicom BVI	9,725,000	972,500	1,030,850	9,725,000	972,500
Public investors	2,827,996	282,799	300,521	2,827,996	282,799
	12,552,996	1,255,299	1,331,371	12,552,996	1,255,299

## 27. 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.

As of 30 June 2003, information of outstanding options were 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 options outstanding as of 30 June 2003
Options granted under the Share Option Scheme:			
30 June 2001	30 June 2001 to 21 June 2010	HK\$15.42	6,508,000
2 August 2002	10 July 2003 to 9 July 2008	HK\$6.18	34,642,800
21 May 2003 (Note (a))	21 May 2004 to 20 May 2009	HK\$4.30	105,590,000
30 May 2003 (Note (a))	21 May 2004 to 20 May 2009	HK\$4.66	366,000
Options granted under the Pre-Global Offering Share Option Scheme:			
22 June 2000	22 June 2002 to 21 June 2010	HK\$15.42	25,436,600
			172,543,400

## 27. SHARE OPTION SCHEME (continued)

Note (a):

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

- (i) an aggregate of 3,298,000 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 was HK\$4.30 and HK\$4.66 respectively; and
- (iii) the period during which an option may be exercised commences from the date of offer but no later than 6 years from the date of the offer date with the following portions:

Periods	Portions
21 May 2004 to 20 May 2009	40%
21 May 2005 to 20 May 2009	30%
21 May 2006 to 20 May 2009	30%

No options have been exercised since the date of grant under the amended Share Option Scheme and the amended Pre-Global Offering Share Option Scheme and up to the date when the Board of Directors approved this condensed interim accounts.

## 28. RELATED PARTY TRANSACTIONS

The table set forth below summarises the name of significant related parties and nature of relationship with the Company as of 30 June 2003:

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

## 28. RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with Unicom Group

The following is a summary of significant recurring transactions carried out with Unicom Group and its subsidiaries. In the Director's opinion, these transactions were carried out on normal commercial terms in the ordinary course of business.

	Unaudited Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenues	473,687	682,834
Interconnection and roaming charges	125,177	146,066
Rental charges for premises, equipment and facilities	12,440	10,356
Rental income for premises and facilities	6,867	—
Revenue for leasing of transmission line capacity	96,700	277,614
Sales of CDMA mobile handsets	10,775	358,740
Charges for the international gateway services	6,666	6,732
Leasing of satellite transmission capacity	16,330	31,117
Purchase of telecom cards	640,957	528,574
CDMA network capacity lease rental	1,548,493	368,671
Commission expenses for sales agency services incurred for telecom cards	9,038	8,972
Agency fee incurred for procurement of telecommunications equipment	5,242	68,916
Rental for the PRC corporate office	—	5,066
Sales of telecommunications equipment	3,369	—

Information presented above for the six months ended 30 June 2003 also comprised new related party transactions between Unicom New Century and Unicom Group and its subsidiaries after the acquisition of Unicom New Century by the Company on 31 December 2002. The nature, terms and conditions of these new related party transactions of Unicom New Century are substantially the same as the Group's, which have been set forth in the shareholders' circular "Connected Transactions and Renewal of Waiver for Existing Connected Transactions" of the Company issued on 29 November 2002 and the Company's 2002 annual report.

Prior to 31 December 2002, the Group's transactions with Unicom New Century (previously a subsidiary of Unicom Group) were treated as related party transactions, and had been included in the related party transactions described above for the six months ended 30 June 2002. Such transactions mainly included (i) interconnection and roaming revenues, (ii) interconnection and roaming charges, (iii) revenue for leasing of transmission line capacity and (iv) sales of CDMA mobile handsets. Upon the acquisition of Unicom New Century, these transactions become inter-group transactions and have been eliminated in the Group's consolidated financial statements starting from 1 January 2003.

## 28. RELATED PARTY TRANSACTIONS (continued)

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

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

### **(c) Short-term loans from Unicom Group**

As of 31 December, 2002, short-term loans from Unicom Group represented loans provided by Unicom Group to relevant branches of Unicom New Century to finance the operations of the Cellular Business. These loans were borrowed by Unicom Group from banks at the interest rate of 4.54%. These bank loans were identified as attributable to the relevant branches of Unicom New Century based on the amount of funds actually utilised by the relevant branches of Unicom New Century. The corresponding interest expenses were also charged to these relevant branches based on funds actually utilised. All these loans were guaranteed by Unicom Group. As of 30 June 2003, such loans have already been fully repaid by the Group.

### **(d) Bank loans guaranteed by Unicom Group**

As of 30 June 2003, the Group has approximately RMB10,377 million (2002: RMB12,635 million) of long-term bank loans and RMB90 million (2002: RMB463 million) of short-term bank loans guaranteed by Unicom Group.

## 29. 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 Netcom 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	Unaudited Six months ended 30 June	
		2003 RMB'000	2002 RMB'000
Interconnection revenue	(i)	665,224	260,722
Interconnection charges	(i)	2,313,318	1,068,192
Leased line rental income	(ii)	99,272	—
Leased line charges	(ii)	335,955	231,462
Operating lease charges	(iii)	3,106	8,343
Agency fee on collection of revenue	(iv)	1,832	2,160

Note:

- (i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's networks and the public switched telephone network of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII.
- (ii) Leased line charges are paid or payable to domestic carriers by the Group for the provision of leasing transmission line. At the same time, the Group leases transmission line to domestic carriers and leased line rental income represents the amount received or receivable from them. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.
- (iii) Guoxin has signed operating lease agreements with the relevant domestic carriers for the use of certain land and buildings. The rentals are based on the market rates in the locality of the land and building.
- (iv) Guoxin has signed agency agreements with the relevant domestic carriers for sales agency services based on standard commission rates, being the prevailing market rates in the locality. Charges for collection services are calculated at a fixed percentage of fees collected from subscribers.

## 29. TRANSACTIONS WITH DOMESTIC CARRIERS (continued)

### (b) Amounts due from and to domestic carriers

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Amounts due from domestic carriers		
- revenue collected on behalf of Guoxin	313,933	260,578
- less: provision for doubtful debts	(40,373)	(49,116)
	273,560	211,462
Amounts due to domestic carriers		
- payables for interconnection charges, leased lines, operating leases and agency fees, etc.	1,166,698	1,123,580
Long-term payable due to domestic carriers		
- payables for obligations under finance leases:		
- current portion of obligations under finance leases	21,114	16,793
- obligations under finance leases	100,511	101,302
	121,625	118,095

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

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



### 30. 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;
- Data and Internet Business — the provision of domestic and international data, Internet and other related services;
- Long Distance Business — the provision of domestic and international long distance and other related services; and
- Paging Business — the provision of paging and related services.

The 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.

### 30. SEGMENT INFORMATION (continued)

(a) Business segments

Unaudited

	Six months ended 30 June 2003								Six months ended 30 June 2002							
	GSM	CDMA	Internet	Long	Paging	Unallocated	Elimination	Total	GSM	CDMA	Internet	Long	Paging	Unallocated	Elimination	Total
	Business	Business	and Data	Distance	Business	amounts			Business	Business	and Data	Distance	Business	amounts		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Revenue (Turnover):																
Usage fee	14,391,597	5,083,572	1,126,373	603,604	—	—	—	21,205,146	9,766,465	243,819	952,605	526,369	—	—	—	11,489,258
Monthly fee	3,595,350	1,565,555	4,524	—	396,930	—	—	5,562,359	2,073,919	86,098	8,256	—	1,119,141	—	—	3,287,414
Interconnection revenue	821,812	215,620	163,534	145,501	645	—	—	1,347,112	715,797	18,200	173,758	264,662	—	—	—	1,172,417
Leased lines rental	—	—	239,242	331,470	—	—	—	570,712	—	—	139,198	318,968	—	—	—	458,166
Other revenue	1,232,250	342,975	43,192	15,202	329,357	—	—	1,962,976	382,120	5,913	35,167	5,103	111,880	—	—	540,183
Total services revenue	20,041,009	7,207,722	1,576,865	1,095,777	726,932	—	—	30,648,305	12,938,301	354,030	1,308,984	1,115,102	1,231,021	—	—	16,947,438
Sales of telecommunications products	476,322	636,229	2,328	361	203,699	—	—	1,318,939	376,241	99,912	—	—	567,253	—	—	1,043,406
Total operating revenue from external customers	20,517,331	7,843,951	1,579,193	1,096,138	930,631	—	—	31,967,244	13,314,542	453,942	1,308,984	1,115,102	1,798,274	—	—	17,990,844
Intersegment revenue	9,490	997	766,793	349,218	101,375	—	(1,227,873)	—	—	—	289,370	415,550	400,582	—	(1,105,502)	—
Total operating revenue	20,526,821	7,844,948	2,345,986	1,445,356	1,032,006	—	—	31,967,244	13,314,542	453,942	1,598,354	1,530,652	2,198,856	—	—	17,990,844
Operating expenses:																
Leased lines and network capacities	(161,726)	(1,597,185)	(141,374)	(18,448)	(44,435)	—	10,959	(1,952,209)	(174,423)	(384,086)	(53,908)	(46,539)	(78,004)	—	—	(736,960)
Interconnection charges	(2,427,999)	(614,556)	(305,371)	(345,044)	—	—	1,115,540	(2,577,430)	(1,625,489)	(32,049)	(163,877)	(200,677)	—	—	753,908	(1,268,184)
Depreciation and amortisation	(6,545,994)	(169,688)	(621,014)	(167,317)	(629,702)	(2,982)	(42,738)	(8,179,435)	(3,976,010)	(51,103)	(296,474)	(293,666)	(728,173)	(2,572)	—	(5,347,998)
Personnel	(1,329,016)	(286,710)	(226,152)	(150,602)	(217,539)	(14,329)	—	(2,224,348)	(720,478)	(97,799)	(169,857)	(118,964)	(288,575)	(13,589)	—	(1,409,262)
Selling and marketing	(1,912,851)	(4,349,367)	(269,090)	(145,260)	(62,778)	—	1,451	(6,737,895)	(1,228,698)	(212,711)	(385,210)	(143,431)	(119,916)	—	—	(2,089,966)
General, administrative and other expenses	(2,785,766)	(569,320)	(309,165)	(203,404)	(702,000)	(19,997)	490	(4,589,162)	(1,705,902)	(149,072)	(186,095)	(133,310)	(330,792)	(30,365)	—	(2,535,536)
Cost of telecommunications products sold	(405,012)	(831,348)	(5,932)	(1,026)	(285,054)	—	99,722	(1,428,650)	(468,128)	(129,858)	—	—	(914,713)	—	345,190	(1,167,509)
Total operating expenses	(15,568,364)	(8,418,174)	(1,878,098)	(1,031,101)	(1,941,508)	(37,308)	—	(27,689,129)	(9,899,128)	(1,056,678)	(1,255,421)	(936,587)	(2,460,173)	(46,526)	—	(14,555,415)
Operating profit (loss)	4,958,457	(573,226)	467,888	414,255	(909,502)	(37,308)	—	4,278,115	3,415,414	(602,736)	342,933	594,065	(261,317)	(46,526)	—	3,435,429
Interest income	30,721	2,688	1,776	1,169	4,533	64,022	—	104,909	25,884	2,939	3,310	3,321	11,902	219,302	—	266,658
Finance costs	(959,690)	(15,961)	(15,085)	(25,717)	(2,984)	93	—	(1,019,344)	(644,000)	(864)	(36,472)	(65,201)	(368)	(14,282)	—	(761,267)
Other (expense) income, net	(20,555)	(1,209)	(8,763)	147	20,395	—	—	(9,985)	(1,545)	58	(1,209)	604	35,979	8,271	—	42,158
Segment profit (loss) before taxation	4,008,933	(587,708)	445,816	389,854	(887,558)	26,807	—	3,353,695	2,795,753	(600,703)	308,562	532,789	(213,804)	166,785	—	2,982,978
Taxation	—	—	—	—	—	—	—	(966,170)	—	—	—	—	—	—	—	(843,434)
Profit after taxation	—	—	—	—	—	—	—	2,387,525	—	—	—	—	—	—	—	2,139,544
Minority interests	—	—	—	—	—	—	—	(2,252)	—	—	—	—	—	—	—	(2,789)
Profit attributable to shareholders	—	—	—	—	—	—	—	2,385,273	—	—	—	—	—	—	—	2,136,755
Other information:																
Provision (write-back) for doubtful debts	628,731	160,417	31,873	26,944	6,989	—	—	854,954	472,342	5,850	26,571	22,312	(323)	—	—	526,752
Impairment loss recognised in the income statement	—	—	7,030	—	528,038	—	—	535,068	—	—	—	—	—	—	—	—
Capital expenditures for segment assets <sup>(1)</sup>	3,549,753	—	1,327,412	1,691,980	20,128	1,552,295	—	8,141,568	3,449,960	—	2,504,426	1,419,917	139,039	1,459,223	—	8,972,565

### 30. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Unaudited								Audited							
	As of 30 June 2003								As of 31 December 2002							
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Paging Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000
Total segment assets	97,506,360	4,776,788	8,464,964	14,364,942	6,651,909	56,874,465	(47,435,561)	141,203,867	97,888,808	5,724,427	7,081,704	13,876,837	8,410,871	58,016,167	(41,370,609)	149,628,205
Total segment liabilities	58,894,369	5,431,989	3,459,237	3,458,651	1,521,469	91,636	72,857,351	67,666,655	5,788,290	2,785,794	3,826,692	2,205,343	136,639			82,409,413

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

#### (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 six months ended 30 June 2003, substantially all capital expenditures were incurred to acquire assets located in the mainland China. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

### 31. ACQUISITION

Unicom New Century was a limited liability company established in the PRC on 16 July 2002 to engage in the provision of GSM and CDMA cellular telecommunications services in 8 provinces and 1 municipality in the PRC, namely, Sichuan, Heilongjiang, Jilin, Henan, Jiangxi, Guangxi, Xinjiang, Shaanxi and Chongqing. The GSM Businesses and the relevant net assets were previously owned and operated by various branches of Unicom Group.

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

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

The effective date of this acquisition was 31 December 2002, accordingly, the operating results of Unicom New Century have been included in the condensed consolidated income statement of the Group for the six months ended 30 June 2003. Details of the acquisition have already been set forth in shareholders' circular "Connected Transactions and Renewal of Waiver for Existing Connected Transactions" of the Company issued on 29 November 2002 and the Company's 2002 annual report.

## 32. CONTINGENCIES AND COMMITMENTS

### (a) Capital commitments

As of 30 June 2003 and 31 December 2002, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited 30 June 2003		Audited 31 December 2002	
	Land and buildings RMB'000	Equipment RMB'000	Land and buildings RMB'000	Equipment RMB'000
Authorised and contracted for	1,150,670	4,450,356	1,131,055	5,131,164
Authorised but not contracted for	40,138	543,583	12,940	2,623,215
<b>Total</b>	<b>1,190,808</b>	<b>4,993,939</b>	<b>1,143,995</b>	<b>7,754,379</b>

As of 30 June 2003, approximately RMB270 million (2002: RMB385 million) of capital commitment outstanding was denominated in US dollars (equivalent to US\$33 million (2002: US\$47 million)).

### (b) Operating lease commitments

As of 30 June 2003 and 31 December 2002, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	Unaudited 30 June 2003			Audited 31 December 2002		
	Land and buildings RMB'000	Equipment RMB'000	CDMA network capacity leasing RMB'000	Land and buildings RMB'000	Equipment RMB'000	CDMA network capacity leasing RMB'000
Leases expiring :						
- not later than one year	386,398	285,198	1,804,800	311,835	274,140	3,045,600
- later than one year and not later than five years	1,056,655	445,032	—	920,038	493,826	—
- later than five years	688,474	197,791	—	875,894	255,273	—
<b>Total</b>	<b>2,131,527</b>	<b>928,021</b>	<b>1,804,800</b>	<b>2,107,767</b>	<b>1,023,239</b>	<b>3,045,600</b>

### (c) Commitment to purchase CDMA handsets

As of 30 June 2003, the Group committed to purchase CDMA handsets amounted to approximately RMB514 million (2002: RMB870 million).



## 32. CONTINGENCIES AND COMMITMENTS (continued)

### (d) *Contingent liability*

As of 30 June 2003, Unicom Guomai provided guarantees for bank loans borrowed by Shanghai Telecommunications Company Limited (formally known as “Shanghai Provincial Post and Telecommunications Administrations”) amounted to approximately US\$18.44 million (2002: US\$23.48 million). All these bank loans were not yet due as of 30 June 2003.

## 33. APPROVAL OF INTERIM ACCOUNTS

The interim accounts were approved by the Board of Directors of the Company on 28 August 2003.