

Notes to the Unaudited Condensed Consolidated Interim Accounts

(Amounts expressed in RMB unless otherwise stated)

1. PRINCIPAL ACTIVITIES

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

In 2003, the Company acquired the entire equity interests in Unicom New World Telecommunications Corporation Limited (a limited liability company established in the PRC, hereinafter referred to as “Unicom New World”) from its ultimate parent company, China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to as “Unicom Group”). 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 2003. The excess of the purchase consideration over the fair value of the net assets acquired has been recorded as goodwill, amounting to approximately RMB1,145 million, which is amortised using the straight-line method over a period of 20 years. The effective date of this acquisition was 31 December 2003, accordingly, the operating results of Unicom New World have been included in the unaudited condensed consolidated income statement of the Group for the six months ended 30 June 2004. Operating revenue and net profit for the six months ended 30 June 2004 of Unicom New World amounted to approximately RMB4,348 million and RMB186 million respectively.

At the same time, the Company’s wholly-owned subsidiary, China Unicom Corporation Limited (hereinafter referred to as “CUCL”), sold the entire equity interests in Guoxin Paging Corporation Limited (a limited liability company established in the PRC, hereinafter referred to as “Guoxin Paging”) to Unicom Group. The disposal is consistent with the Group’s long term strategy to focus its activities in the core telecommunication business. The sale of Guoxin Paging became effective on 31 December 2003 after all the conditions to the sale were satisfied, a substantial portion of the cash consideration was settled by Unicom Group, and ownership as well as control was passed to Unicom Group. The difference between the sale proceeds and the net assets of Guoxin Paging as of 31 December 2003 was recorded as a loss on sale of discontinued operation in 2003. Since the effective date of this sale was 31 December 2003, the operating results of Guoxin Paging were not included in the unaudited condensed consolidated income statement of the Group for the six months ended 30 June 2004. Guoxin Paging subsequently changed its name to Unicom New Guoxin Telecommunications Corporation Limited (hereinafter referred to as “New Guoxin”) on 29 April 2004.

Details of the aforementioned acquisition and sale have already been set forth in the related shareholders’ circular “Connected Transactions” of the Company dated 26 November 2003 and the Company’s 2003 annual report.

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

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 ("HK 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. In addition, PricewaterhouseCoopers ("PwC"), the auditors of the Company, have reviewed the unaudited condensed consolidated interim accounts for the six months ended 30 June 2004 in accordance with the Statements of Auditing Standards 700 "Engagement to Review Interim Financial Reports" issued by the HKSA. PwC's unmodified independent review report to the Board of Directors was included in this 2004 interim report.

The unaudited condensed consolidated interim accounts include the financial information of the Company and its subsidiaries. These unaudited condensed consolidated interim accounts should be read in conjunction with the 2003 annual report. The details of the Company's subsidiaries are set out in Note 25 to the audited financial statements included in its 2003 annual report.

Pursuant to the HKSA's standards improvement process, the Hong Kong Financial Reporting Standard Committee of the HKSA has undertaken a special project to achieve convergence with the International Financial Reporting Standards. Under the convergence principles, the HKSA will adopt the revised International Accounting Standards ("IAS") as Hong Kong Accounting Standards ("HKAS"). The convergence project is designed to achieve full convergence of the existing HK SSAP with IAS by (i) adoption of the revisions made to the IAS as a result of the improvement project of the International Accounting Standards Board, (ii) elimination of existing differences between HK SSAP and their IAS equivalents, and (iii) issuance of new accounting standards to adopt the remaining IAS as new HKAS. The revised or new HKAS will become effective for accounting periods beginning on or after 1 January 2005. As part of this convergence project, certain new HKAS pronouncements have already been issued in 2004. The Group is currently assessing the effect of these new pronouncements on its financial statements.

3. OPERATING REVENUE

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

Operating revenue is net of business tax and government surcharges.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

4. PROFIT BEFORE TAXATION

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

	Note	Unaudited	
		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
After charging/(crediting):			
Dividends from investment securities	7	—	(2,531)
Realised gains on trading securities	7,13	—	(7,902)
Unrealised gains on trading securities	7,13	—	(14,489)
Realised gains on investment securities	7	—	(3,345)
Interest income		(44,337)	(104,909)
Interest expense:	6	1,214,399	1,295,232
Less: amounts capitalised in construction-in-progress	6	(259,699)	(290,870)
Total interest expenses	6	954,700	1,004,362
Depreciation:			
- Assets held under finance leases	17	6,077	6,077
- Other assets		8,879,236	7,842,294
Total depreciation	17	8,885,313	7,848,371
Amortisation of goodwill	18	85,743	58,140
Other amortization	19	277,330	272,924
Amortisation of deferred customer acquisition costs of contractual CDMA subscribers	16(a)	3,051,251	3,104,225
Loss on disposal of property, plant and equipment	5	4,480	46,011
Operating lease expense:			
- Leased lines		383,098	403,716
- CDMA network capacities	26(a)	3,047,478	1,548,493
- Other leasing expense	5	558,782	412,747
Total operating lease expense		3,989,358	2,364,956
Provision for doubtful debts:			
- GSM Business		736,217	628,731
- CDMA Business		391,838	160,417
- Data and Internet Business		78,115	31,873
- Long Distance Business		38,905	26,944
- Paging Business		—	6,989
Total provision for doubtful debts	5	1,245,075	854,954
Cost of inventories		1,508,988	1,401,982
Write-down of inventories to net realisable value		3,627	25,308

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

4. PROFIT BEFORE TAXATION (continued)

	Note	Unaudited	
		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
After charging/(crediting):			
Personnel:			
- Salaries and wages		1,629,088	1,718,809
- Contributions to defined contribution pension schemes	8	147,859	151,245
- Contributions to supplementary defined contribution pension schemes	8	29,760	19,927
- Special monetary housing benefits	9	3,010	90,724
- Contributions to other housing fund		110,384	81,421
- Other housing benefits		188,009	162,222
Total personnel		2,108,110	2,224,348
Additional provision for impairment of property, plant and equipment	5	—	535,068
Net exchange gains	7	(729)	(1,015)

5. GENERAL, ADMINISTRATIVE AND OTHER EXPENSES

	Unaudited	
	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Operating lease rental expenses	558,782	412,747
Repair and maintenance expenses	880,396	608,690
Provision for doubtful debts	1,245,075	854,954
Loss on disposal of property, plant and equipment	4,480	46,011
Provisions for impairment of property, plant and equipment	—	535,068
Traveling, entertainment and meeting expenses	578,352	500,769
Power and water charges	776,347	512,686
Office expenses	333,923	460,587
Other	764,529	657,650
	5,141,884	4,589,162

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

6. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Interest on bank loans repayable over 5 years	35,444	25,754
Interest on bank loans repayable within 5 years	1,178,955	1,269,478
Less: Amounts capitalised in construction-in-progress	(259,699)	(290,870)
Total interest expenses	954,700	1,004,362
Bank charges	6,747	14,982
	961,447	1,019,344

7. OTHER (INCOME) EXPENSES, NET

	Unaudited	
	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Dividends from investment securities	—	(2,531)
Realised gains on trading securities	—	(7,902)
Unrealised gains on trading securities	—	(14,489)
Realised gains on investment securities	—	(3,345)
Net exchange gains	(729)	(1,015)
Other	(41,751)	39,267
	(42,480)	9,985

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

8. 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 on 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 2004 (2003: 19%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions.

In addition, effective from 11 August 1998, a supplementary defined contribution pension plan managed by an independent insurance company was established. Under this plan, the Group makes a monthly defined contribution of 2% to 6% of the monthly salary of each employee (2003: 2% to 6%). There were no vested benefits attributable to past services upon adoption of the plan.

Retirement benefits charged to the income statement were as follows:

	Unaudited	
	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Contributions to defined contribution pension schemes	147,859	151,245
Contributions to supplementary defined contribution pension schemes	29,760	19,927

9. 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 2004 and 2003, 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 2004 and 2003 amounted to approximately RMB3,010,000 and RMB90,724,000 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 2004 and accordingly, no provision for such benefits was made.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

10. TAXATION

Provision for taxation represents:

	Unaudited	
	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Provision for PRC enterprise income tax on the estimated taxable profits for the period	1,224,703	1,092,848
Deferred taxation	37,720	(126,678)
	1,262,423	966,170

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 2004 and 2003.

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

- (a) The tax liabilities of CUCL, its wholly-owned subsidiaries and Unicom New Century Telecommunication Corporation Limited ("Unicom New Century") for the six months ended 30 June 2004 and 2003 were assessed in accordance with FIE ("Foreign Investment Enterprises") taxation requirements on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing as approved by the tax authority; and
- (b) Various provincial branches/municipal cities of CUCL, Unicom New Century and Unicom New World were granted a preferential treatment by tax authorities whereby their enterprise income tax was assessed at rates of 30%, 15% or 10% for the six months ended 30 June 2004 and 2003. The remaining provincial branches were assessed at a tax rate of 33%.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

10. TAXATION (continued)

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

	Unaudited	
	Six months ended 30 June	
	2004	2003
PRC		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses	1.0	0.4
Effect of preferential tax rates	(2.9)	(4.7)
Effective PRC income tax rate	31.1%	28.7%
Hong Kong		
Statutory tax rate of 17.5%	17.5%	17.5%
Non-taxable income:		
- Interest income	(17.5)	(17.5)
Effective HK income tax rate	—	—
Total overall effective income tax rate	31.0%	28.8%

Tax effect of preferential tax rate is as follows:

	Unaudited	
	Six months ended 30 June	
	2004	2003
Aggregate amount (RMB in millions)	117.4	157.9
Per share effect (RMB)	0.009	0.013

The movement of the deferred tax assets is as follows:

	Unaudited	Audited
	Six months ended 30 June 2004 RMB'000	Year 2003 RMB'000
Balance, beginning of period	1,198,749	1,815,234
Acquisition of Unicom New World	—	206,928
Deferred taxation charged to income statement	(37,720)	(823,413)
Balance, end of period	1,161,029	1,198,749

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

10. TAXATION (continued)

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

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Deferred tax assets:		
Interest on loans from CCF joint ventures	194,897	256,673
Loss arising from terminations of CCF Arrangements	212,639	236,249
Income tax on advances from customers for telephone cards	13,904	261,467
Provision for impairment loss for property, plant and equipment	4,721	4,875
Provision for doubtful debts of Cellular Business	936,212	534,839
Write-off of other assets	4,058	7,563
Write-down of inventories to net realisable value	17,331	15,905
Amortisation of retirement benefits	15,016	18,549
Additional depreciation deductible for tax purpose	61,085	101,267
Monetary housing benefits	36,205	56,826
Other	15,457	36,917
	1,511,525	1,531,130
Deferred tax liabilities:		
Change of depreciation period	(8,275)	(28,268)
Capitalised interest already deducted for tax purpose	(342,221)	(304,113)
	(350,496)	(332,381)
Net deferred tax assets	1,161,029	1,198,749
Less: Current portion of deferred tax assets	(981,660)	(873,849)
	179,369	324,900

11. PROFITS ATTRIBUTABLE TO SHAREHOLDERS

- (a) At the annual general meeting held on 12 May 2004, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2003 totalling RMB1,256,159,607 (year ended 31 December 2002: RMB1,255,299,607), which has been reflected as an appropriation of retained profits for the six months ended 30 June 2004. As of 30 June 2004, such dividends have been paid by the Company.
- (b) For the six months ended 30 June 2004, the Group has not made any appropriation to reserves or declared any dividends to the shareholders (2003: Nil).

12. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2004 and 2003 were computed by dividing the profit attributable to shareholders of approximately RMB2,809,910,000 and RMB2,385,273,000 by the weighted average number of 12,559,962,334 shares and 12,552,996,070 shares during the periods respectively.

Diluted earnings per share for the six months ended 30 June 2004 and 2003 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 dilutive potential ordinary shares. All potential dilutive ordinary shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme as describe in Note 25. For the six months ended 30 June 2004, all potential dilutive shares, which if converted to ordinary shares would decrease earnings per share. For the six months ended 30 June 2003, there was no dilution of earnings per share after taking into account of the dilutive effect of the share options. The anti-dilutive shares arising from the share options of approximately 31,944,000 shares (2003: 60,735,000 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 and the unrealised gains amounted to RMB14,489,000. No trading securities are maintained by the Group after the sale of Guoxin Paging on 31 December 2003.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

14. ACCOUNTS RECEIVABLE, NET

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Accounts receivable for GSM services	5,067,742	5,268,041
Accounts receivable for CDMA services	3,239,847	2,408,093
Accounts receivable for Data and Internet services	617,843	696,802
Accounts receivable for Long Distance services	435,338	587,570
Sub-total	9,360,770	8,960,506
Less: Provision for doubtful debts for GSM services	(2,181,647)	(2,716,396)
Provision for doubtful debts for CDMA services	(839,040)	(508,970)
Provision for doubtful debts for Data and Internet services	(92,903)	(158,313)
Provision for doubtful debts for Long Distance services	(169,301)	(105,280)
	6,077,879	5,471,547

The aging analysis of accounts receivable was as follows:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Not yet due (within credit period)	4,158,012	3,433,584
Due within three months	1,580,587	1,744,568
Three months to six months	1,265,379	750,719
Six months to one year	1,143,082	1,299,386
More than one year	1,213,710	1,732,249
	9,360,770	8,960,506

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

Provision for doubtful debts was analysed as follows:

	Unaudited Six months ended 30 June 2004 RMB'000	Audited Year 2003 RMB'000
Balance, beginning of period	3,488,959	1,733,972
Provision for the period	1,245,075	1,749,887
Acquisition of Unicom New World	—	199,904
Sale of Guoxin Paging	—	(64,664)
Written-off for the period	(1,451,143)	(130,140)
Balance, end of period	3,282,891	3,488,959

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

15. INVENTORIES

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Handsets	995,095	1,133,027
Telephone cards	843,104	855,183
Other	185,531	181,144
	2,023,730	2,169,354

16. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Prepaid rental		222,973	233,461
Deposits and prepayments		1,968,399	1,624,874
Interest receivable		2,579	4,872
Advances to employees		206,366	164,487
Deferred customer acquisition costs of contractual CDMA subscribers	(a)	366,133	535,521
Other		246,017	584,562
		3,012,467	3,147,777

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

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Within one year	2,931,822	3,109,944
Over one year	80,645	37,833
	3,012,467	3,147,777

16. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

Note:

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

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

For the six months ended 30 June 2004, amortisation of these deferred customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB3,051 million (2003: RMB3,104 million), which was recorded in "selling and marketing" expenses. As of 30 June 2004, the carrying amount of unamortised deferred customer acquisition costs of contractual CDMA subscribers totaled approximately RMB3,247 million (2003: RMB4,447 million), with approximately RMB366 million (2003: RMB536 million) recorded in "prepayment and other current assets" (for contract period within 1 year) and with approximately RMB2,881 million (2003: RMB3,911 million) recorded in "other assets" (for contract period over 1 year) (see Note 19).

As of 30 June 2004, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB1,887 million and RMB139 million (2003: RMB2,366 million and RMB153 million) respectively.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT, NET

	Unaudited						Audited
	Six months ended 30 June 2003						Year 2003
	Land use rights and buildings RMB'000	Telecommuni- cations equipment RMB'000	Office furniture, fixtures and others RMB'000	Leasehold improvements RMB'000	Construction- in-progress RMB'000	Total RMB'000	Total RMB'000
Cost or valuation:							
Beginning of period	13,103,955	115,221,436	4,494,776	1,054,779	21,741,746	155,616,692	138,317,709
Additions	67,595	178,732	73,681	48,340	7,377,403	7,745,751	18,806,907
Acquisition of Unicom New World	—	—	—	—	—	—	12,106,458
Transfer from CIP	1,055,671	5,332,463	141,938	25,286	(6,555,358)	—	—
Sale of Guoxin Paging	—	—	—	—	—	—	(12,421,053)
Disposals	(15,185)	(51,883)	(23,238)	(82,727)	—	(173,033)	(1,193,329)
End of period	14,212,036	120,680,748	4,687,157	1,045,678	22,563,791	163,189,410	155,616,692
Representing:							
At cost	11,841,263	120,680,748	4,687,157	1,045,678	22,563,791	160,818,637	153,245,919
At valuation	2,370,773	—	—	—	—	2,370,773	2,370,773
	14,212,036	120,680,748	4,687,157	1,045,678	22,563,791	163,189,410	155,616,692
Accumulated depreciation and impairment:							
Beginning of period	1,524,647	33,821,346	1,641,112	510,432	14,307	37,511,844	30,831,080
Charge for the period	347,718	8,029,989	424,696	82,910	—	8,885,313	15,975,271
Impairment losses	—	—	—	—	—	—	528,048
Sale of Guoxin Paging	—	—	—	—	—	—	(8,773,970)
Disposals	(3,262)	(41,608)	(17,222)	(82,727)	—	(144,819)	(1,048,585)
End of period	1,869,103	41,809,727	2,048,586	510,615	14,307	46,252,338	37,511,844
Net book value:							
End of period	12,342,933	78,871,021	2,638,571	535,063	22,549,484	116,937,072	118,104,848
Beginning of period	11,579,308	81,400,090	2,853,664	544,347	21,727,439	118,104,848	107,486,629

As of 30 June 2004, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB1,323 million (2003: RMB1,431 million) have been included in construction-in-progress.

For the six months ended 30 June 2004, interest of approximately RMB260 million (2003: RMB291 million) was capitalised to construction-in-progress.

As of 30 June 2004, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB328 million and RMB69 million respectively (2003: RMB303 million and RMB61 million).

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

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 amounted to RMB83 million. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB2.08 million for the six months ended 30 June 2004 (2003: RMB4.40 million). As of 30 June 2004, for these land use right and buildings stated at revalued amounts, their carrying amount would have been approximately RMB1,739 million (2003: RMB1,783 million) had they been carried at cost less accumulated depreciation.

As of 30 June 2004, net book value of telecommunications equipment held under finance leases amounted to approximately RMB141 million (2003: RMB147 million).

For the six months ended 30 June 2004, the Group recognised losses on disposal of property, plant and equipment of approximately RMB4.48 million (2003: RMB46 million).

18. GOODWILL

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Cost:		
Goodwill arising from acquisition of Unicom New Century	2,284,749	2,284,749
Goodwill arising from acquisition of Unicom New World	1,144,957	1,144,957
	3,429,706	3,429,706
Less: Accumulated amortisation	(199,981)	(114,238)
	3,229,725	3,315,468

Goodwill arising from the acquisition of Unicom New Century and Unicom New World represented the excess of purchase consideration over the fair value of the separately identifiable net assets acquired. The amortisation charge of goodwill amounted to approximately RMB85,743,000 for the six months ended 30 June 2004 (2003: RMB58,140,000).

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

19. OTHER ASSETS

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Interconnection facilities		501,746	613,622
Other		1,659,062	1,588,839
		2,160,808	2,202,461
Less: Accumulated amortisation		(1,223,797)	(1,162,464)
		937,011	1,039,997
Prepaid rental and leased line		970,182	897,783
Deferred customer acquisition costs of contractual CDMA subscribers	16(a)	2,880,624	3,911,650
		4,787,817	5,849,430

For the six months ended 30 June 2004, amortisation of other assets, excluding deferred customer acquisition costs of contractual CDMA subscribers and prepaid rental and leased line, amounted to approximately RMB277,330,000 (2003: RMB272,924,000).

20. PAYABLES AND ACCRUED LIABILITIES

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Payables to contractors and equipment suppliers		10,346,942	11,789,366
Accrued expenses		1,501,574	1,417,750
Payables to telecommunications products suppliers		1,395,491	1,346,784
Customer deposits		1,124,652	1,198,812
Salary and welfare payables		756,687	494,794
Amounts due to Services Provider/Content Provider		509,970	369,330
Other	(a)	606,955	481,584
		16,242,271	17,098,420

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 2004 RMB'000	Audited 31 December 2003 RMB'000
Less than six months	11,775,963	12,253,057
Six months to one year	3,015,976	3,051,167
More than one year	1,450,332	1,794,196
	16,242,271	17,098,420

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

21. SHORT-TERM BANK LOANS

Interest rates on RMB denominated short-term bank loans ranged from 4.54% to 5.02% per annum for the six months ended 30 June 2004 (2003: 4.54% to 5.31% per annum). In addition, there were approximately HK\$655 million of HK\$ denominated short-term bank loans as of 30 June 2004, which carried an interest rate of 0.22% over HIBOR per annum.

As of 30 June 2004, short-term bank loans of approximately RMB70 million (2003: RMB70 million) were guaranteed by Unicom Group.

As of 30 June 2004, short-term bank loans of approximately RMB250 million (2003: RMB520 million) were secured by the future service fee revenue to be generated by the cellular operations.

22. LONG-TERM BANK LOANS

Interest rate and final maturity		Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
RMB denominated bank loans	Fixed interest rate ranging from 4.44% to 5.73% (2003: 4.44% to 5.76%) per annum with maturity through 2010 (2003: maturity through 2009) (Note (a))		
- secured		7,648,886	10,622,366
- unsecured		23,785,297	26,994,612
		31,434,183	37,616,978
USD denominated bank loans	Floating interest rate of USD LIBOR plus interest margin of 0.28% to 0.44% per annum with maturity through 2010 (Note (b))		
		9,932,178	5,793,690
Less: Current portion		(10,499,374)	(7,197,877)
		30,866,987	36,212,791

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

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Balances due:		
- not later than one year	10,499,374	7,197,877
- later than one year and not later than two years	9,832,006	15,549,832
- later than two years and not later than five years	19,379,561	18,837,560
Thereafter	1,655,420	1,825,399
	41,366,361	43,410,668
Less: Portion classified as current liabilities	(10,499,374)	(7,197,877)
	30,866,987	36,212,791

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)

(Amounts expressed in RMB unless otherwise stated)

22. LONG-TERM BANK LOANS (continued)

- (a) As of 30 June 2004, long-term bank loans denominated in RMB were secured by the following:
- (i) approximately RMB7,649 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 RMB3,279 million (2003: RMB3,600 million) were also guaranteed by Unicom Group;
 - (ii) in addition to the above, approximately RMB6,985 million (2003: RMB8,004 million) of long-term bank loans were guaranteed by Unicom Group; and
 - (iii) approximately RMB49.2 million (2003: RMB50.0 million) of long-term bank loans were secured by restricted bank deposits.
- (b) On 26 September 2003, the Company signed an agreement with 13 financial institutions for a long-term syndicated loan of USD0.7 billion. This facility was split into 3 tranches (i) USD0.2 billion 3-year loan; (ii) USD0.3 billion 5-year loan; and (iii) USD0.2 billion 7-year loan and carried an interest rate of 0.28%, 0.35% and 0.44% over US dollar LIBOR per annum for each tranche respectively. In October 2003, the Company and CUCL entered into an agreement to lend the bank loans to CUCL with similar terms to finance the network constructions of CUCL.

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

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

23. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Total minimum lease payments under finance leases repayable:		
- not later than one year	30,248	25,926
- later than one year and not later than five years	34,659	34,659
- later than five years	141,431	145,753
	206,338	206,338
Less: Future finance charges	(77,653)	(81,184)
Present value of minimum obligations	128,685	125,154
Representing obligations under finance leases:		
- current liabilities	30,248	25,435
- non-current liabilities	98,437	99,719
The present value of obligations under finance leases:		
- not later than one year	30,248	25,435
- later than one year and not later than five years	28,224	28,224
- later than five years	70,213	71,495
	128,685	125,154
Less: Portion classified as current liabilities	(30,248)	(25,435)
	98,437	99,719

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

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

24. SHARE CAPITAL

		Unaudited 30 June 2004 HK\$'000		Audited 31 December 2003 HK\$'000	
Authorised:					
30,000,000,000 ordinary shares of HK\$ 0.1 each		3,000,000		3,000,000	

	Note	Unaudited 30 June 2004			Audited 31 December 2003		
		Number of shares (‘000)	HK\$'000	RMB equivalent RMB'000	Number of shares (‘000)	HK\$'000	RMB equivalent RMB'000
Issued and fully paid:							
Unicom BVI		9,725,000	972,500	1,030,850	9,725,000	972,500	1,030,850
Public investors	(a)	2,836,962	283,696	301,474	2,828,172	282,817	300,540
		12,561,962	1,256,196	1,332,324	12,553,172	1,255,317	1,331,390

Note (a): Increase of 8,790,000 ordinary shares for the six months ended 30 June 2004 represented the ordinary shares issued under the share option scheme (Note 25).

25 SHARE OPTION SCHEME

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

Movements in the number of share options outstanding are as follows:

	Number of share options involved	
	Unaudited Six months ended 30 June 2004	Audited Year 2003
Balance, beginning of period	172,367,400	69,868,600
Granted	—	105,956,000
Exercised	(8,790,000)	(176,000)
Cancelled	—	(3,281,200)
Balance, end of period	163,577,400	172,367,400

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

25 SHARE OPTION SCHEME (continued)

As of 30 June 2004, 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 shares outstanding as of 30 June 2004	Number of shares outstanding as of 31 December 2003
Shares 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	25,436,600
Shares granted under the Share Option Scheme:				
30 June 2001	30 June 2001 to 21 June 2010	HK\$15.42	6,508,000	6,508,000
2 August 2002	10 July 2003 to 9 July 2008	HK\$6.18	26,042,800	34,466,800
21 May 2003	21 May 2004 to 20 May 2009	HK\$4.30	105,224,000	105,590,000
30 May 2003	21 May 2004 to 20 May 2009	HK\$4.66	366,000	366,000
			163,577,400	172,367,400

Details of share options exercised during the period were as following:

Period of option exercised	Exercise price HK\$	Weighted average closing price per share immediately before days of exercise of options HK\$	Proceeds received HK\$	Number of shares involved
5 January to 15 March 2004	6.18	9.45	52,060,320	8,424,000
25 May to 30 June 2004	4.30	5.84	1,573,800	366,000
			53,634,120	8,790,000

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)

(Amounts expressed in RMB unless otherwise stated)

26. RELATED PARTY TRANSACTIONS

The table set forth below summarises the names of significant related parties and nature of relationship with the Company as of 30 June 2004:

Name of related parties	Nature of relationship with the Company
China United Telecommunications Corporation ("Unicom Group")	Ultimate parent company
Unicom NewSpace Co., Ltd ("Unicom NewSpace")	A subsidiary of Unicom Group
Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye")	A subsidiary of Unicom Group
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
Unicom New Guoxin Telecommunications Corporation Limited Limited ("New Guoxin", originally known as "Guoxin Paging", which changed to its present name on 29 April 2004)	A subsidiary of Unicom Group
Unicom Guomai Communications Corporation Limited ("Unicom Guomai")	A subsidiary of the Guoxin Paging
UNISK (Beijing) Information Technology Corporation Limited ("UNISK")	A joint venture company of Unicom Group
China Unicom Corporation Limited ("CUCL")	A subsidiary of the Company
Unicom New Century Telecommunications Corporation Limited ("Unicom New Century")	A subsidiary of the Company
Unicom New World Telecommunications Corporation Limited ("Unicom New World")	A subsidiary of the Company

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with Unicom Group and its subsidiaries

The following is a summary of significant recurring transactions carried out with Unicom Group and its subsidiaries. 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	
	Note	2004 RMB'000	2003 RMB'000
Transactions with Unicom Group and its subsidiaries:			
Interconnection and roaming revenues	(i)	102,650	473,687
Interconnection and roaming charges	(i)	27,130	125,177
Charges for cellular subscriber value-added services by New Guoxin	(ii), (iii)	447,541	—
Charges for customers services by New Guoxin	(ii), (iv)	250,102	—
Charges for cellular subscriber value-added services by UNISK	(v)	1,061	—
Rental charges for premises, equipment and facilities		6,701	12,440
Rental income for premises and facilities	(ii), (vi)	18,595	6,867
Allocation of premises, equipment and facilities usage costs	(vii)	89,034	—
Revenue for leasing of transmission line capacity	(i)	10,494	96,700
Sales of CDMA mobile handsets	(i)	—	10,775
Charges for the international gateway services		7,272	6,666
Leasing of satellite transmission capacity		7,076	16,330
Purchase of telecom cards		561,163	640,957
CDMA network capacity lease rental		3,047,478	1,548,493
Commission expenses for sales agency services incurred for telecom cards		7,556	9,038
Agency fee incurred for procurement of telecommunications equipment		19,659	5,242

26. RELATED PARTY TRANSACTIONS (continued)

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

Information presented above for the six months ended 30 June 2004 comprised the following major new related party transactions:

- (i) Additional related party transactions existed between Unicom New World and Unicom Group and its subsidiaries after the acquisition of Unicom New World by the Group on 31 December 2003. The nature, terms and conditions of these additional related party transactions of Unicom New World are substantially the same as those between the Group and Unicom Group, which have been set forth in the shareholders' circular "Connected Transactions" of the Company issued on 26 November 2003 and the Company's 2003 annual report.

Prior to 31 December 2003, the Group's transactions with Unicom New World (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 2003. 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 World, these transactions become inter-group transactions and have been eliminated in the Group's consolidated financial statements starting from 1 January 2004.

- (ii) Related party transactions existed between the Group and New Guoxin after the sale of New Guoxin by CUCL on 31 December 2003. The nature, terms and conditions of these new related party transactions with New Guoxin have been set forth in the shareholders' circular "Connected Transactions" of the Company issued on 26 November 2003. Such transactions mainly included (i) cellular subscriber value-added services, (ii) customer services, (iii) agency services, and (iv) provision of premises. Upon the sale of New Guoxin, these transactions become related party transactions starting from 1 January 2004. Prior to 31 December 2003, the Group's transactions with Guoxin Paging were treated as inter-group transactions and have been eliminated in the Group's consolidated financial statements.
- (iii) Pursuant to the Comprehensive Operator Service Agreement ("Comprehensive Service Agreement") signed between the Group and New Guoxin dated 20 November 2003, New Guoxin provides operator-based value-added services to the Group's cellular subscribers through its comprehensive business network. The respective branches of New Guoxin and the Group may agree on the proportion for sharing the revenue derived from such value-added services, on the condition that such agreed proportion for New Guoxin shall not be higher than the average proportion for independent value-added telecommunications content providers who provide value-added telecommunications content to the Group in the same region. Subject to the foregoing condition, the proportion of revenue sharing may be adjusted annually.

26. RELATED PARTY TRANSACTIONS (continued)

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

- (iv) Pursuant to the Comprehensive Service Agreement, New Guoxin provides business inquiries, tariff inquiries, account maintenance, complaints handling, and customer interview and subscriber retention services to the Group's customers through its 1001 paging network. The service fee payable by the Group is calculated on the basis of the customer service costs plus a profit margin, which shall not exceed 10%. The customer service costs were determined by the actual cost per operator seat and the number of effective operating operator seats.
- (v) CUCL and UNISK signed a Cellular Subscriber Value-Added Services Agreement (the "Agreement") in March 2004. According to the Agreement, CUCL agreed to provide its telecommunication channel and network subscriber resources to UNISK to enable UNISK to provide value-added services to subscribers through CUCL's cellular telecommunications network and data platform. The Agreement also stipulates that the content service fees paid by subscribers for using UNISK's value-added services are shared between CUCL and UNISK based on agreed proportion. The content service fees are collected from subscribers by CUCL and the relevant portion is paid to UNISK on a regular basis.
- (vi) Pursuant to the Guoxin Premises Leasing Agreement signed between the Group and New Guoxin dated 20 November 2003, the Group agreed to provide premises to New Guoxin. The rental amount in each case is based on the higher of depreciation costs and market price for similar premises in that locality.
- (vii) CUCL, Unicom New Century and Unicom New World entered into the Comprehensive Service Agreements with Unicom Group respectively. Pursuant to these service agreements and related rental arrangement between Unicom Group and Unicom New Horizon regarding the sharing of premises, the Group agreed to provide premises (including premise, air-conditioning, electricity, utilities and other relevant facilities) leased from independent third parties to Unicom New Horizon for its use. The related usage costs were allocated between the Group and Unicom New Horizon based on the actual charges from the independent third parties in proportion to usage of the premises.

(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) Bank loans guaranteed by Unicom Group

As of 30 June 2004, the Group has approximately RMB10,264 million (2003: RMB11,604 million) of long-term bank loans and RMB70 million (2003: RMB70 million) of short-term bank loans guaranteed by Unicom Group.

27. TRANSACTIONS WITH DOMESTIC CARRIERS

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

(a) Transactions with domestic carriers

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

	Note	Unaudited	
		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Interconnection revenue	(i)	1,371,579	665,224
Interconnection charges	(i)	3,419,014	2,313,318
Leased line rental income	(ii)	88,329	99,272
Leased line charges	(ii)	370,469	335,955

Notes:

- (i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's networks and the public switched telephone network of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII.
- (ii) Leased line charges are paid or payable to domestic carriers by the Group for the provision of transmission line. At the same time, the Group leases transmission line to domestic carriers in return of leased line rental income. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

27. TRANSACTIONS WITH DOMESTIC CARRIERS (continued)

(b) Amounts due from and to domestic carriers

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Amounts due from domestic carriers:		
- Receivable for interconnection revenue and leased line revenue	180,992	184,729
- Less: Provision for doubtful debts	(167)	(116)
	180,825	184,613
Amounts due to domestic carriers:		
- Payables for interconnection charges and leased lines charges	994,034	778,841
Long-term payable due to domestic carriers:		
- Payables for obligations under finance leases:		
- Current portion of obligations under finance leases	30,248	25,435
- Obligations under finance leases	98,437	99,719
	128,685	125,154

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

Long-term payable for obligations under finance lease was related to the leasing of certain subsea transmission cables from a domestic carrier for a period of 25 years (see Note 23).

28. 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 (discontinued in 2004).

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

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

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

28. SEGMENT INFORMATION (continued)

(a) Business segments

	Unaudited													
	Six months ended 30 June 2004							Six months ended 30 June 2003						
	Continuing operations							Continuing operations						
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	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	Total RMB'000
Operating revenue (Turnover):														
Usage fee	16,549,969	8,021,888	1,358,547	439,666	—	—	26,370,070	14,391,597	5,083,572	1,126,373	603,604	—	—	21,205,146
Monthly fee	3,817,070	2,355,296	—	—	—	—	6,172,366	3,595,350	1,565,555	4,524	—	396,930	—	5,562,359
Interconnection revenue	1,255,302	410,744	62,557	107,753	—	—	1,836,356	821,812	215,620	163,534	145,501	645	—	1,347,112
Leased lines rental	—	—	159,203	242,030	—	—	401,233	—	—	239,242	331,470	—	—	570,712
Other revenue	1,924,024	993,003	238,600	4,524	—	—	3,160,151	1,232,250	342,975	43,192	15,202	329,357	—	1,962,976
Total services revenue	23,546,365	11,780,931	1,818,907	793,973	—	—	37,940,176	20,041,009	7,207,722	1,576,865	1,095,777	726,932	—	30,648,305
Sales of telecommunications products	462,019	963,544	6,004	295	—	—	1,431,862	476,322	636,229	2,328	361	203,699	—	1,318,939
Total operating revenue from external customers	24,008,384	12,744,475	1,824,911	794,268	—	—	39,372,038	20,517,331	7,843,951	1,579,193	1,096,138	930,631	—	31,967,244
Intersegment revenue	83,110	66,266	995,145	596,025	—	(1,740,546)	—	9,490	997	766,793	349,218	101,375	—	(1,227,873)
Total operating revenue	24,091,494	12,810,741	2,820,056	1,390,293	—	—	39,372,038	20,526,821	7,844,948	2,345,986	1,445,356	1,032,006	—	31,967,244
Operating expenses:														
Leased lines and network capacities	(146,623)	(3,082,852)	(181,145)	(19,956)	—	—	(3,430,576)	(161,726)	(1,597,185)	(141,374)	(18,448)	(44,435)	—	10,959
Interconnection charges	(3,210,602)	(1,259,167)	(461,882)	(370,777)	—	1,740,546	(3,561,882)	(2,427,999)	(614,556)	(305,371)	(345,044)	—	—	1,115,540
Depreciation and amortisation	(7,950,130)	(205,311)	(783,945)	(245,444)	(2,564)	(60,992)	(9,248,386)	(6,545,994)	(169,688)	(621,014)	(167,317)	(629,702)	(2,982)	(8,179,435)
Personnel	(1,355,693)	(386,356)	(215,520)	(136,535)	(14,006)	—	(2,108,110)	(1,329,016)	(286,710)	(226,152)	(150,602)	(217,539)	(14,329)	(2,224,348)
Selling and marketing	(2,914,801)	(5,556,026)	(665,072)	(208,755)	—	—	(9,344,654)	(1,912,851)	(4,349,367)	(269,090)	(145,260)	(62,778)	—	1,451
General, administrative and other expenses	(3,439,186)	(1,087,049)	(421,545)	(172,148)	(21,956)	—	(5,141,884)	(2,785,766)	(569,320)	(309,165)	(203,404)	(702,000)	(19,997)	490
Cost of telecommunications products sold	(392,381)	(1,184,737)	(10,123)	(2,342)	—	—	(1,589,583)	(405,012)	(831,348)	(5,932)	(1,026)	(285,054)	—	99,722
Total operating expenses	(19,409,416)	(12,761,498)	(2,739,232)	(1,155,957)	(38,526)	—	(34,425,075)	(15,568,364)	(8,418,174)	(1,878,098)	(1,031,101)	(1,941,508)	(37,308)	(27,689,129)
Operating profit (loss)	4,682,078	49,243	80,824	234,336	(38,526)	—	4,946,963	4,958,457	(573,226)	467,888	414,255	(909,502)	(37,308)	4,278,115
Interest income	29,619	3,140	1,400	2,033	59,876	(51,731)	44,337	30,721	2,688	1,776	1,169	4,533	64,022	104,909
Finance costs	(897,497)	(24,043)	(35,335)	(7,539)	(48,764)	51,731	(961,447)	(959,690)	(15,961)	(15,085)	(25,717)	(2,984)	93	(1,019,344)
Other (expense) income, net	(1,127)	650	1,092	293	41,572	—	42,480	(20,555)	(1,209)	(8,763)	147	20,395	—	(9,985)
Segment profit (loss) before taxation and minority interests	3,813,073	28,990	47,981	229,123	14,158	—	4,072,333	4,008,933	(587,708)	445,816	389,854	(887,558)	26,807	3,353,695
Taxation	—	—	—	—	—	—	(1,262,423)	—	—	7,030	—	528,038	—	(966,170)
Profit after taxation	—	—	—	—	—	—	2,809,910	—	—	—	—	—	—	2,387,525
Minority interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,252)
Profit attributable to shareholders	—	—	—	—	—	—	2,809,910	—	—	—	—	—	—	2,385,273
Other information:														
Provision for doubtful debts	736,217	391,838	78,115	38,905	—	—	1,245,075	628,731	160,417	31,873	26,944	6,989	—	854,954
Impairment loss recognised in the income statement	—	—	—	—	—	—	—	—	—	7,030	—	528,038	—	535,068
Capital expenditures for segment assets (1)	2,598,464	—	1,626,569	233,496	3,027,315	—	7,485,844	3,549,753	—	1,327,412	1,691,980	20,128	1,552,295	8,141,568

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

28. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Unaudited							Audited						
	As of 30 June 2004							As of 31 December 2003						
	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	GSM Business RMB'000	CDMA Business RMB'000	Internet and Data Business RMB'000	Long Distance Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000
Total segment assets	110,486,562	4,504,981	8,432,861	17,860,303	62,103,407	(56,172,638)	147,215,476	104,430,531	4,717,167	8,611,873	19,061,967	63,234,534	(50,218,142)	149,837,930
Total segment liabilities	59,561,689	5,912,227	4,168,784	5,635,408	6,604,662	(5,893,504)	75,989,266	56,837,496	6,561,772	3,975,293	6,918,025	5,929,854	—	80,222,440

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

(b) Geographical segments

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

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment and other assets) are situated in mainland China, as the Group's principal activities are conducted in the PRC. For the six months ended 30 June 2004, substantially all capital expenditures were incurred to acquire assets located in the mainland China. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

29. EVENTS AFTER BALANCE SHEET DATE

(a) Acquisition of Unicom International

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

Pursuant to the acquisition agreement signed between Unicom Group (HK) and the Company dated 28 July 2004, the Company agreed to acquire the entire equity interest in Unicom International from Unicom Group (HK) by a cash consideration of HK\$37,159,996.

The aforementioned acquisition of Unicom International will become effective when all the conditions to the acquisition are satisfied and cash consideration is settled by the Group.

(b) Combination of Unicom New Century

On 30 July 2004, CUCL combined with Unicom New Century and obtained the revised business license. After the combination, Unicom New Century was legally dissolved and CUCL extended its Cellular Business in 21 provinces.

(c) Settlement of Amounts Due from Related Parties

On 16 August 2004, Unicom New Horizon, New Guoxin, Unicom Paging Corporation and Unicom Xingye settled the amounts due to the Group, totaling approximately RMB353,269,000 as of 30 June 2004. At the same time, the Group settled the amounts due to Unicom Group of approximately RMB903,437,000 as of 30 June 2004.

Notes to the Unaudited Condensed Consolidated Interim Accounts (continued)
(Amounts expressed in RMB unless otherwise stated)

30. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

As of 30 June 2004 and 31 December 2003, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Unaudited 30 June 2004			Audited 31 December 2003		
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000
Authorised and contracted for	766,492	3,338,831	4,105,323	523,031	6,188,907	6,711,938
Authorised but not contracted for	115,443	1,990,407	2,105,850	210,040	985,122	1,195,162
Total	881,935	5,329,238	6,211,173	733,071	7,174,029	7,907,100

As of 30 June 2004, approximately RMB54 million (2003: RMB83 million) of capital commitment outstanding was denominated in US dollars (equivalent to approximately US\$7 million (2003: US\$10 million)).

(b) Operating lease commitments

As of 30 June 2004 and 31 December 2003, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	Unaudited 30 June 2004				Audited 31 December 2003
	Land and buildings RMB'000	Equipment RMB'000	CDMA network capacity RMB'000	Total RMB'000	Total RMB'000
Leases expiring :					
- not later than one year	308,213	29,444	3,453,380	3,791,037	7,150,023
- later than one year and not later than five years	1,599,797	112,857	—	1,712,654	1,391,120
- later than five years	851,511	34,835	—	886,346	953,917
Total	2,759,521	177,136	3,453,380	6,390,037	9,495,060

(c) Commitment to purchase CDMA handsets

As of 30 June 2004, the Group committed to purchase CDMA handsets amounted to approximately RMB2,690 million (2003: RMB920 million).

31. APPROVAL OF INTERIM ACCOUNTS

The interim accounts were approved by the Board of Directors of the Company on 26 August 2004.