(All amounts in RMB thousands unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom Limited (the "Company") was incorporated as a limited liability company in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 8 February 2000. The principal activities of the Company are investment holding and the Company's subsidiaries are engaged in the provision of GSM and CDMA cellular, data, Internet and long distance services in the PRC. The GSM and CDMA business hereinafter collectively refer to as the "Cellular Business". The Company and its subsidiaries are hereinafter referred to as the "Group". The address of its registered office is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited on 22 June 2000 and the American Deposit Stock of the Company were listed on The New York Stock Exchange Inc. on 21 June 2000.

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). The majority of the equity interests in Unicom BVI is owned by China United Telecommunications Corporation Limited (a joint stock company incorporated in the PRC on 31 December 2001, with its A shares listed on the Shanghai Stock Exchange on 9 October 2002). The majority of the equity interest in China United Telecommunications Corporation Limited is owned by China United Telecommunications Corporation (a state owned enterprise established in the PRC, hereinafter referred as "Unicom Group"). The directors of the Company consider Unicom Group to be the ultimate parent company.

The Group completed the following acquisition and activities in 2004 and 2005:

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

In 2004, the Company acquired the entire equity interests in Unicom International, which is 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)"). Unicom International is a limited liability company established in Hong Kong on 24 May 2000 to engage in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. Unicom International's wholly-owned US subsidiary, China Unicom USA Corporation ("Unicom USA"), carries on a wholesale voice business for traffic between US and mainland China.

1. ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

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

Pursuant to the acquisition agreement signed between Unicom Group (HK) and the Company dated 28 July 2004, the Company agreed to acquire the entire equity interests in Unicom International from Unicom Group (HK) for a cash consideration of HK$37,465,996 (equivalent to approximately RMB39,740,000, including direct costs of acquisition). After all the conditions to the acquisition were satisfied and cash consideration was settled by the Company, the acquisition of Unicom International became effective in September 2004. The Company has adopted the purchase method of accounting to account for this acquisition of entity under common control of Unicom Group, according to the previous Hong Kong Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions". The total fair value of the identifiable assets and liabilities of Unicom International in September 2004 amounted to approximately RMB47 million. The excess of the fair value of the identifiable assets and liabilities over purchase consideration has been recorded as negative goodwill amounting to RMB7.73 million (Note 7) in 2004.

As this acquisition was effective in September 2004, accordingly, the operating results of Unicom International for the period from the acquisition effective date to 31 December 2004 have been included in the consolidated income statement of the Group in 2004.

Incorporation of China Unicom (Macau) Company Limited

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

Incorporation of Unicom Huasheng Telecommunications Technology Company Limited

On 1 July 2005, China Unicom Corporation Limited (hereinafter refer to as "CUCL", a direct wholly-owned subsidiary of the Company) together with Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye", a subsidiary of Unicom Group) set up and incorporated Unicom Huasheng Telecommunications Technology Company Limited ("Unicom Huasheng"). Unicom Huasheng is principally engaged in sales of handsets and telecommunication equipment and provision of technical services. CUCL effectively held 95% in the entire issued capital of Unicom Huasheng. The paid-in capital of Unicom Huasheng as of 31 December 2005 is RMB50 million, CUCL has contributed a capital of RMB47.5 million, whereas the minority shareholder Unicom Xingye contributed the remaining capital of RMB2.5 million.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention except that, certain buildings are stated at fair value. They have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This basis of accounting differs from that used in the preparation of statutory financial statements for PRC statutory reporting purposes, which are based on the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP").

The principal adjustments made to conform to HKFRS include the following:

- Reversal of revaluation surplus and related depreciation and amortisation charges arising from the revaluation of assets performed by independent valuers registered in the PRC;
- Additional capitalisation of borrowing costs;
- Provision for deferred taxation on HKFRS adjustments;
- Capitalisation of the direct costs associated with the acquisition of subsidiaries;
- Recognition of employee share-based compensation costs (Note 2.2(b));
- Reversal of goodwill amortisation and recognition of negative goodwill in opening retained earnings (Note 2.2(c)); and
- Capitalisation and amortisation of upfront non-refundable revenue and the related direct incremental costs for activating cellular subscribers (Note 2.2(d)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

As at 31 December 2005, the current liabilities of the Group had exceeded the current assets by approximately RMB35.6 billion (2004: RMB28.9 billion). This was mainly attributable to the use of short-term bank deposits and short-term bonds to repay long-term bank loans. Taking into account of available financing facilities and continuous net cash inflows from operating activities, the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2005 have been prepared under the going concern basis.

The preparation of the consolidated accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.2 The Adoption of New/Revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases - Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 27, 28, 31, 32, 33, 39 and HKAS Int 15 did not result in substantial changes to the Group's accounting policies.

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to other assets - long-term prepayment for lease of land. The upfront prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at cost less accumulated depreciation.

HKAS 24 has extended the identification of related parties and disclosure of related parties to include state-owned enterprises. Related parties include Unicom Group and its related parties, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government (other than those shown on the face of balance sheets as related parties), other entities and corporations in which the Company is able to control, jointly control or exercise significant influence and key management personnel of the Company and Unicom Group as well as their close family members.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill/negative goodwill. Until 31 December 2004, goodwill was amortised on a straight line basis over 20 years, and assessed for any indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005, and the accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Starting from 1 January 2005 onwards, goodwill is no longer amortised but is tested per annum for impairment, as well as when there is indication of impairment.

In addition, in accordance with HKFRS 3, from 1 January 2005, if the fair value of the net identifiable assets and liabilities acquired exceed the purchase consideration (i.e. an amount arises which would have been recorded as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises. Negative goodwill previously recognised has been derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings of the Group.

Upon the adoption of HKFRS, the Group changed its accounting policy for recognition of upfront non-refundable revenue, such as connection fee and receipts from SIM/UIM cards, which had previously been recognised upon completion of activation services. Effective from 1 January 2005, upfront non-refundable revenue and the related direct incremental costs for activating cellular subscribers (including costs of SIM/UIM cards and commissions) are amortised over the expected customer service periods. Direct incremental costs are recognised only to the extent expected to be recoverable. The expected customer service period for the Cellular Business is estimated based on the expected stabilised churn rates of subscribers. Management judges that this change of accounting policy provides reliable and more relevant information because it better reflects the economic effects of the transactions.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after 1 January 2005.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

Effects of new policy in 2005 and 2004:

The following table discloses the adjustments that have been made in accordance with the transitional provisions of the respective new and revised HKFRSs or the provisions of HKAS 8 to profit after taxation in the consolidated income statement for the year ended 31 December 2004.

	Effect of new policy in 2004				
RMB in million (except per share data)	HKAS 17 (Note 2.2 (a))	HKFRS 2 (Note 2.2 (b))	HKAS 38 (Note 2.2 (c))	Changes in accounting policy for revenue recognition (Note 2.2 (d))	Total
Increase/(decrease) of profit after taxation	—	(89)	—	196	107
Increase/(decrease) of basic earning per share (RMB)	—	(0.007)	—	0.016	0.009
Increase/(decrease) of diluted earning per share (RMB)	—	(0.007)	—	0.016	0.009

The following table discloses the effects on profit after taxation in the consolidated income statement for the year ended 31 December 2005 that would have occurred had the previous accounting policies been applied in the year.

	Effect of new policy in 2005				
RMB in million (except per share data)	HKAS 17 (Note 2.2 (a))	HKFRS 2 (Note 2.2 (b))	HKAS 38 (Note 2.2 (c))	Changes in accounting policy for revenue recognition (Note 2.2 (d))	Total
Increase/(decrease) of profit after taxation	—	(108)	171	178	241
Increase/(decrease) of basic earning per share (RMB)	—	(0.009)	0.014	0.014	0.019
Increase/(decrease) of diluted earning per share (RMB)	—	(0.009)	0.014	0.014	0.019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

(a) The adoption of revised HKAS 17 resulted in:

	31 December 2005 RMB in millions	31 December 2004 RMB in millions
Decrease in property, plant and equipment	(697)	(412)
Increase in other assets	697	412

	For the year ended 31 December	
	2005 RMB in millions	2004 RMB in millions
Decrease in depreciation and amortisation	(28)	(26)
Increase in general, administrative and other expenses	28	26

(b) The adoption of HKFRS 2 resulted in:

	31 December 2005 RMB in millions	31 December 2004 RMB in millions
Increase in employee share-based compensation reserve	215	111
Increase in share premium	4	—
Decrease in retained earnings	(111)	(22)

	For the year ended 31 December	
	2005 RMB in millions	2004 RMB in millions
Increase in employee benefit expenses	108	89
Decrease in basic earnings per share (RMB)	0.009	0.007
Decrease in diluted earnings per share (RMB)	0.009	0.007

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

(c) The following tables disclose the effects on the relevant line items in the consolidated financial statements for the year ended 31 December 2005 that would have occurred had the previous accounting policy for goodwill been applied in 2005.

	31 December 2005 RMB in millions
Impact on goodwill (increase)	178
Increase in retained earnings	7

	For the year ended 31 December 2005 RMB in millions
Impact on depreciation and amortisation (decrease)	171
Increase in basic earnings per share (RMB)	0.014
Increase in diluted earnings per share (RMB)	0.014

(d) Changes in accounting policy for recognition of upfront non-refundable revenue and direct incremental costs resulted in:

	31 December 2005 RMB in millions	31 December 2004 RMB in millions
Increase in other assets	3,192	3,546
Decrease in deferred tax assets	(34)	(74)
Increase in deferred revenue	3,348	3,840
Decrease in retained earnings	(368)	(564)

	For the year ended 31 December	
	2005 RMB in millions	2004 RMB in millions
Increase/(decrease) in revenue	492	(244)
Increase in selling and marketing expenses	1,140	579
Decrease in costs of telecommunication products sold	786	917
Decrease in income tax expenses	40	102
Increase in basic earnings per share (RMB)	0.014	0.016
Increase in diluted earnings per share (RMB)	0.014	0.016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 The Adoption of New/Revised HKFRS (continued)

The Group has not early adopted the following new Standards or Interpretations that have been issued but are not yet effective. The Group has commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether these new standards and interpretations would have a significant impact on the Group's financial statements.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 2.2).

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidation (continued)

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group has not presented geographical segment. This is also consistent with the Group's internal financial reporting.

Unallocated costs primarily represent corporate expenses and income taxes. Segments assets consist primarily of property, plant and equipment, other assets, prepayments, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure mainly comprises additions to property, plant and equipment.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ('the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, Plant and Equipment

(a) Buildings

Buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31 March 2000. In the intervening years, the directors review the carrying value of buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in buildings valuation is credited to the revaluation reserve; any decrease is first offset against the increase on earlier valuations recorded in the revaluation reserve, in respect of the same property and is thereafter charged to the income statement. Upon the disposal of revalued buildings, the realised portion of the revaluation reserve is transferred from the valuation reserve to retained earnings.

(b) Other fixed assets

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

(c) Depreciation

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Depreciable life	Residual value
Buildings	8 – 40 years	3%
Telecommunications equipment	3 – 15 years	3%
Office furniture, fixtures and others	5 – 14 years	3%

Leasehold improvements are depreciated over the shorter of their estimated useful lives and the lease periods.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, Plant and Equipment (continued)

(c) Depreciation (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

(d) Construction-in-progress

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

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

(e) Gain or loss on disposal

The gain or loss on disposal of a property, plant and equipment is the differences between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gain or loss on the disposal of an entity include the carrying amount of goodwill relating to the entity sold (Note 2.2).

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Other Assets

Other assets mainly represent (i) capitalised direct incremental costs for activating GSM and CDMA subscribers; (ii) capitalised customer acquisition costs under contractual CDMA subscriber packages; (iii) computer software; (iv) prepaid rentals and leased lines: and (v) prepayment for lease of land.

Capitalised direct incremental costs for activating GSM and CDMA subscribers, including costs of SIM/UIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activiation of cellular services, are amortised over the expected customer service periods (Note 2.2).

Capitalised customer acquisition costs under contractual CDMA subscriber packages represent the cost of CDMA handsets given to contractual subscribers under special promotional packages. Such customer acquisition costs, to the extent recoverable, are amortised over the contractual period (not exceeding 2 years) during which the minimum contract revenue is expected to flow to the Group. Customer acquisition costs of contractual CDMA subscribers are included in "prepayment and other current assets" when the customer contract is within 1 year of expiry, whereas they are recorded as "other assets" when the contract period is over 1 year.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Long-term prepaid leased lines and rentals are amortised using a straight-line method over the lease period.

Long-term prepayment for lease of land are amortised over the period of the lease on a straight-line basis (Note 2.2).

2.9 Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories, which principally comprise handsets, SIM cards, UIM cards and accessories, are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.11 Accounts Receivable and Other Receivables

Accounts receivable and other receivables are recognised at fair value, less provision for impairment. A provision for impairment of accounts receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement.

2.12 Short-term Bank Deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

2.13 Cash and Cash Equivalents

Cash and cash equivalents are carried at cost in the balance sheet. Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Deferred Revenue

(a) Advance from customers

Advances from customers are amounts paid by customers for GSM and CDMA prepaid cards, GSM and CDMA prepaid service fees, Internet protocol (“IP”) telephone cards and other calling cards which cover future telecommunications services (over a period of 1 to 12 months). Customer advances are stated at the amount of proceeds received less the amount already recognised as revenues upon the rendering of services.

(b) Deferred revenue

Upfront non-refundable revenue, including connection fee and receipts from activation of SIM/UIM cards relating to GSM and CDMA business, are deferred and recognised over the expected service period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee Benefits

(a) Retirement benefits

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) Housing benefits

The Group's contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred.

(c) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period (Note 2.2).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Provisions

Provisions are recognised when the Group has present obligations (legal or constructive) as a result of past events, it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue Recognition

(a) Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and when the revenue and cost can be measured reliably, on the following basis:

- Usage fees are recognised when the service is rendered;
- Monthly fees are recognised as revenue in the month during which the services are rendered;
- Revenue from telephone cards, which represent prepaid service fees received from customers for telephone services, is recognised when the related service is rendered upon actual usage of the telephone cards by customers;
- Leased lines and indefeasible rights of use ("IRU") are treated as operating leases with rental income recognised on a straight-line basis over the lease term, except for the lease of specific and identified network assets that transfer substantially all the risks and rewards incidental to the ownership to the lessee, which is recognised as capacity sales;
- Sales of telecommunications products, such as handsets and accessories etc, are recognised when title has been passed to the buyers; and
- Upfront non-refundable revenue, including connection fee and receipts from activation of SIM/UIM cards related to GSM and CDMA businesses, are capitalised and recognised over the expected service periods estimated based on expected stabilised churn rates of subscribers (Note 2.2).

Revenue is stated net of business tax and government surcharges.

(b) Interest income

Interest income from deposits in banks or other financial institutions is recognised on a time proportion basis, using the effective interest method.

(c) Dividend income

Dividend income is recognised when the rights to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.19 Costs under Subscriber Point Reward Program

Under the subscriber point reward program, the estimated costs of providing telecommunications services or providing non-cash gifts are calculated based on the value of bonus points awarded to subscribers, which are are recognised as selling and marketing expenses and accrued as a current liability when subscribers accumulate bonus points.

2.20 Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Borrowing Costs (continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognised as expenses when incurred.

The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varies from 3.60% to 5.58% for the year ended 31 December 2005 (2004: 4.78% to 5.73%).

2.21 Taxation

(a) Income tax

Income tax is provided on the basis of income for statutory financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for tax purposes.

(b) Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Related Parties

Entities are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Entities are also considered to be related if they are subject to common control or common significant influence.

2.24 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Basic earnings per share has been computed by dividing the profit attributable to shareholders by the number of weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share has been computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

Basic and diluted net earnings per ADS have been computed by multiplying the net income per share by 10, which is the number of shares represented by each ADS.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department, following the overall directions determined by the Board of Directors. The finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk – Foreign exchange risk

The Group's businesses are mainly conducted in RMB, except the Company and certain subsidiaries located in HK, Macau and USA. Dividends to shareholders are declared in RMB and paid in HK dollars. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar and HK dollar. As at 31 December 2005, approximately RMB11,406 million of loans and RMB1,001 million of bank balances and cash and short-term bank deposits are denominated in US dollar and HK dollar. The Group has not used any forward contracts or foreign currency swap arrangements to hedge its exposure to foreign currency risk. However, the Group's treasury department in headquarter continuously monitors the foreign exchange risk regarding foreign currency loans and deposits.

3. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of accounts receivable for services and amounts due from related parties and other operators.

The Group has policies that limit the amount of credit exposure to accounts receivable for services and amounts due from related parties and other operators. The normal credit period granted by the Group is an average 30 days from the date of invoice. The Group believes that adequate provision for uncollectible accounts receivable have been made.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly represented by bank deposits. Apart from this, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term bank loans. Bank loans issued at floating rates expose the Group to cash flow interest-rate risk. Bank loans and short-term bonds issued at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2005, approximately RMB7, 442 million of long-term loans (2004: approximately RMB27,292 million), RMB5,303 million (2004: approximately RMB8,231 million) of short-term loans and RMB9,866 million (2004: Nil) of short-term bonds were at fixed rates, while approximately RMB9,684 million (2004: approximately RMB9,932 million) of long-term loans and RMB1,722 million (2004: approximately RMB697 million) of short-term loans were at floating rates.

The Group does not expect any significant changes in interest rates which might materially affect the Group's results of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Accounting Estimates

(a) Depreciation of property, plant and equipment

Depreciation of the Group's property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to residual values over the estimated useful lives. The Group reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. The Group uses estimates of useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expense may change. The cost and accumulated depreciation of property, plant and equipment as at 31 December 2005 amounted to RMB190.9 billion (2004: RMB173.8 billion) and RMB74.8 billion (2004: RMB55.3 billion), respectively.

(b) Impairment of non-current assets

The Group tests whether non-current assets have suffered from any impairment, in accordance with the accounting policy stated on Note 2.9. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is a significant change in management's assumptions and the estimated recoverable amounts of the non-current assets, the Group's future results would be affected.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Accounting Estimates (continued)

(c) Provision for Doubtful Debts

Accounts receivables are stated at costs, less provision for doubtful debts. The Group evaluates specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. The Group records a provision based on its best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as at each period-end, the Group makes a provision based on observable data indicating that there is a measurable decrease in the estimated future cash flows from the remaining balances. The Group makes such estimates based on its past experience, historical collection patterns, subscribers' credit worthiness and collection trends. For the general subscribers of Cellular, Long Distance, Data and Internet services, the Group makes a full provision for receivables aged over 3 months, which is consistent with its credit policy with respect to relevant subscribers.

The Group's estimates described above are based on historical experience, subscriber creditability and collection trends. If circumstances change (e.g. due to factors including developments in our business and the external market environment), the Group may need to re-evaluate its policies on doubtful debts, and make additional provisions in the future.

(d) Provision for Subscriber Point Reward Program

The Group has implemented a subscriber Point Reward Program since 2004, which is a bonus point based scheme that rewards subscribers according to their service consumption, loyalty and payment history. The estimated liability is recognised based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified to exercise their redemption right at period/year end, and (iii) the estimated number of bonus points related to subscribers who have no right to redeem the incentives at period/year end, but who are expected to ultimately earn and claim awards under the Reward Program. If subscribers redeem rewards or their entitlements expire, the provision is adjusted accordingly. The Group has recognised the liability amounting to RMB337 million as at 31 December 2005 (2004: RMB40 million). As the Group has not had much historical incentive redemption experience in the past, the Group may need to re-assess method for accruing for the potential bonus point liability when there is a more stablised and reliable historical redemption rate in future.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Accounting Estimates (continued)

(e) Income Tax and Deferred Taxation

Income tax is provided based on income before tax for statutory financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for tax purposes and taking into consideration any preferential tax treatment to which the Group is entitled.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. 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.

In the preparation of the financial statements, the Group estimated its income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. This process involves estimation made by the Group about its current tax exposure together with an assessment of temporary differences resulting from different treatment of items for tax and accounting purposes in order to determine the amount of tax provisions for the period. The Group believes that it has recorded adequate tax provisions based on its best estimates and assumptions. For the evaluation of temporary differences, the Group has assessed the likelihood that the deferred taxes could be recovered. Major deferred tax components relate to interest on loans from China-China-Foreign ("CCF") joint ventures, loss arising from terminations of CCF arrangements (Note 9(f)), provisions for doubtful debts and write-down of inventory to net realizable value and additional depreciation deductible for tax purposes. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to RMB0.34 billion as at 31 December 2005 (2004: RMB0.47 billion). Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from the continuing operations in the foreseeable future.

The Group believes it has recorded adequate current and deferred taxes based on prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxes may be necessary.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Accounting judgements

(a) Capitalisation of CDMA Customer Acquisition Costs

The Group has been operating the CDMA business since the beginning of 2002. In order to accelerate the development of the CDMA business and subscriber growth, the Group began to offer certain promotional packages in the second half of 2002. As part of the contractual arrangements with certain CDMA contractual subscribers under these special promotional packages, CDMA handsets were provided to the subscribers for their use at no additional charge during the specified contract periods, which range from 6 months to 2 years. In return, the subscribers are required to incur a minimum amount of service fees during the contract period. If the contractual subscribers can fulfill the minimum contract spending amounts by the end of the contract period, they will not be obliged to repay the remaining costs of the CDMA handsets given for their use. In addition, to secure contract performance, these subscribers are required under their contracts to (1) prepay certain amounts of service fees or deposits, (2) maintain a bank deposit in one of the designated commercial banks to secure their minimum contract amounts, or (3) provide a guarantor who will compensate the Group for any loss in the event of the subscriber's non-performance of related contractual obligations.

The Group considers the costs of the CDMA handsets provided to contractual subscribers under these promotional packages as customer acquisition costs for the development of these new CDMA contractual subscribers. Such customer acquisition costs are capitalised to the extent expected to be recoverable, and amortised over the contractual periods (not exceeding two years), over which future economic benefits are expected to flow to the Group in the form of minimum contract revenue.

The Group determined its accounting policy for capitalisation of customer acquisition costs of contractual CDMA subscribers after a careful evaluation of specific facts and circumstances, and believes that the capitalisation of such costs is appropriate because future economic benefits are expected to flow to the Group in the form of future contractual revenues, taking into consideration (1) the historically high ARPUs and low churn rate, default or bad debt rates of these subscribers; (2) the Group's established procedures in and the relative low cost of enforcement of contracts in default; and (3) the existence of specified contract periods with minimum contract spending amounts and built-in contractual safeguarding measures such as non-refundable prepayments, bank deposits, and guarantees received, as well as penalty clauses imposed on subscribers.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Capitalisation judgements (continued)

(a) Capitalisation of CDMA Customer Acquisition Costs (continued)

Therefore, the Group believes that the capitalised customer acquisition costs are recoverable from future revenue to be derived from these promotional packages, and the capitalisation and amortisation of these customer acquisition costs is an appropriate accounting policy. Furthermore, the Group continuously assesses and evaluates the recoverability of these customer acquisition costs, based on detailed review of historical subscriber churn rates and estimated default rate. Based on the Group's current assessment and evaluation, the Group believes that there is no significant problem in recovering the carrying amounts of the customer acquisition costs as at 31 December 2005.

The Group has made the above recoverability assessments based on the current legal and operating environment relating to the subscribers' contract performance and other information currently available. Actual results may differ significantly from the current situation and the Group's current estimates. If the situation changes significantly in the future, the Group may need to expense off additional non-recoverable customer acquisition costs based on conditions at that time.

(b) Lease of CDMA Network Capacity

(i) Original CDMA lease agreement

A CDMA network capacity lease agreement has been signed by the Group and Unicom Group and its wholly-owned subsidiary, Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon"). Pursuant to this CDMA lease agreement, Unicom New Horizon has agreed to lease the capacity of the CDMA network to the Group covering the 9 provinces of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei and the 3 municipalities of Beijing, Shanghai and Tianjin. This lease became effective on 8 January 2002.

In addition, on 31 December 2002 and 2003, the Group acquired all the equity interests in Unicom New Century and Unicom New World respectively, which together operate GSM and CDMA Cellular Businesses in another 12 provinces, 1 municipality and 5 autonomous regions in the PRC. Unicom New Century and Unicom New World have also respectively entered into a CDMA lease agreement with Unicom Group and Unicom New Horizon on similar terms and conditions. These lease agreements and the Group's existing lease agreement will be referred to as the "CDMA Lease Agreements".

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Accounting judgements (continued)

(b) Lease of CDMA Network Capacity (continued)

(i) Original CDMA lease agreement (continued)

According to the terms of the CDMA Lease Agreements, the initial lease period is for one year, renewable for additional one-year terms at the Group's option. The Group has the exclusive right to lease and operate the CDMA network capacity in the above regions. Also, the Group has the option to add or reduce the capacity leased by giving specified period of advance notice. The lease fee per unit of capacity is calculated on a basis that if full capacity is leased, it would permit Unicom New Horizon to recover its investment in constructing the CDMA network in 7 years, together with an internal return of 8%. In January 2004, the Group renewed the CDMA network capacity for an additional one-year term. The Group has the option to purchase the network assets based on the appraised value of the network determined by an independent appraiser.

The appropriate lease classification at the inception of the CDMA Lease Agreement was assessed. Factors and related implications considered include whether the Group has taken the risks and rewards of ownership of the CDMA assets. Furthermore, the Group has considered whether the existence of the purchase option and the annual renewal options, combined with the related economic penalties, risks and benefits, have caused the Group to take on risks and rewards similar to those that an owner of these assets would bear.

Unicom New Horizon has the legal ownership of the CDMA network, is directly responsible for the planning, financing and construction of the CDMA network, and directly enters into all contracts with suppliers and constructors. The Group believes it only bears the risks associated with the operation of the CDMA business during the relevant leasing periods and are free from any ownership risks of the CDMA network. According to the terms of the Original CDMA Lease Agreements, the initial lease period was only one year, with renewal of additional one-year terms at the Group's option. Accordingly, there was no predetermined lease period and minimum network capacity to be leased in future periods. The Group has the option to determine whether they will renew and continue the leases and how much capacity to lease. The Group also has the option to decide whether they will exercise the purchase option for the CDMA network at fair value based on the then market environment and future operating performance of the CDMA business subject to approvals obtained from the Company's independent minority shareholders.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Accounting judgements (continued)

(b) Lease of CDMA Network Capacity (continued)

(i) Original CDMA lease agreement (continued)

Accordingly, if the CDMA business turns out to be unsuccessful, the Group does not have the obligation to continue this CDMA lease arrangement or to exercise the purchase option.

In general, the classification of leases is dependent on whether the risks and rewards of ownership of the leased assets rest substantially with the lessor or the lessee. Leases that substantially transfer to the lessee all the risks and rewards of ownership of the leased assets are accounted for as finance leases; and leases where substantially all the risks and rewards of ownership of the leased assets remain with the lessor are accounted for as operating leases. When performing this assessment, the Group has considered a number of factors as stated above that required significant judgments.

At the inception of the CDMA Lease Agreements, there was a high degree of uncertainty related to the market condition and operating results of the CDMA business. It was highly uncertain whether the Group will continue to lease the network in the future or to estimate the future network capacity to be leased. The Group was also unable to determine whether or not they will exercise the purchase option. Given these uncertainties and due to the fact that the risks associated with the ownership of the CDMA assets substantially remained with Unicom Group and Unicom New Horizon, the Group accounted for the leasing of the CDMA network as operating leases for the initial lease periods, estimated to be three years, so as to reflect the respective rights and obligations of the relevant parties to the CDMA Lease Agreements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Accounting judgements (continued)

(b) Lease of CDMA Network Capacity (continued)

(ii) New CDMA lease agreement

On 24 March 2005, the Group entered into a New CDMA Lease Agreement (the "New CDMA Leasing Agreement") with Unicom Group and Unicom New Horizon to replace the old agreements. Pursuant to the New CDMA Lease, the CDMA lease has an initial term of two years, the lease fee of the CDMA Network shall be determined on the basis of the CUCL's services revenue, details as follows:

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

The major modifications which needed to be considered for impact on the accounting for the lease agreement are a change in the method of calculating leasing fee and a change in the initial lease term from 1 year to 2 years. Under the New CDMA Lease Agreement, the Group believes the uncertainties of the CDMA business continue to exist, particularly due to the fact that (i) the CDMA business still recorded a loss in 2005; (ii) the uncertainty of the future success of CDMA business arising from keen market competition; and (iii) the uncertainty in the future changes in technology, technological standards and government regulatory environment. At the inception of the New CDMA Lease Agreement, the Company is unable to determine whether it will renew the lease after the initial two-year lease term or whether it will exercise the purchase option. Given these uncertainties, the Group considers the risks associated with the ownership of the CDMA assets still substantially remain with Unicom Group and Unicom New Horizon, and has concluded the leasing of the CDMA network is still an operating lease.

(All amounts in RMB thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.2 Accounting judgements (continued)

(b) Lease of CDMA Network Capacity (continued)

(ii) New CDMA lease agreement (continued)

At the end of the lease term, the Group will reassess the appropriate classification based on the relevant factors and circumstances available at that time. Based on the above accounting judgement made, only the operating lease expense has been recorded in the income statement since the commencement of the CDMA Lease Agreements and the New CDMA Lease Agreement, and the carrying value of the CDMA assets and the related liabilities have not been reflected in the balance sheet. For the year ended 31 December 2005, the lease expense of approximately RMB7.92 billion (2004: RMB6.59 billion) was recorded under the leased lines and network capacities in the income statement.

5. SEGMENT INFORMATION

The Group is organised into 4 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 (Note 4.2(b));
- Data and Internet Business — the provision of domestic and international data, Internet and other related services; and
- Long Distance Business — the provision of domestic and international long distance and other related services.

The Group's primary measure of segment results is based on segment profit or loss before taxation. Unallocated costs primarily represent corporate expenses whilst unallocated income represents interest income that was not identifiable to different operating segments.

5. SEGMENT INFORMATION (continued)

5.1 Business Segments

	2005						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amounts	Elimination	Total
Revenue (Turnover):							
Usage fee	32,077,305	16,726,678	2,540,574	599,251	—		51,943,808
Monthly fee	6,840,720	4,905,538	—	—	—		11,746,258
Interconnection revenue	3,466,067	1,398,577	102,989	434,577	—		5,402,210
Leased lines rental	—	—	393,659	489,969	—		883,628
Other revenue	9,751,436	4,546,143	12,745	776	—		14,311,100
Total services revenue	52,135,528	27,576,936	3,049,967	1,524,573	—		84,287,004
Sales of telecommunications products	3,174	2,743,337	7,226	8,090	—		2,761,827
Total revenue from external customers	52,138,702	30,320,273	3,057,193	1,532,663	—		87,048,831
Intersegment revenue	—	—	2,553,242	1,189,531	—	(3,742,773)	—
Total revenue	52,138,702	30,320,273	5,610,435	2,722,194	—	(3,742,773)	87,048,831
Leased lines and network capacities	(253,790)	(8,035,534)	(369,644)	(88,349)	—		(8,747,317)
Interconnection charges	(7,207,123)	(3,345,180)	(600,462)	(962,378)	—	3,742,773	(8,372,370)
Depreciation and amortisation	(17,315,209)	(614,297)	(1,886,178)	(551,045)	(1,452)		(20,368,181)
Employee benefits expenses	(3,550,780)	(1,176,502)	(492,376)	(297,160)	(99,494)		(5,616,312)
Selling and marketing	(7,546,848)	(11,308,449)	(1,386,790)	(315,791)	—		(20,557,878)
General, administrative and other expenses	(8,054,364)	(2,537,950)	(867,670)	(259,705)	(21,871)		(11,741,560)
Cost of telecommunications products sold	(80,674)	(3,477,893)	(16,315)	(434)	—		(3,575,316)
Finance costs	(943,214)	(42,368)	(37,043)	(66,787)	(223,682)	213,773	(1,099,321)
Interest income	64,626	8,958	2,915	3,807	229,663	(213,773)	96,196
Other gains (loss) - net	25,591	9,043	65	229	(3)		34,925
Segment profit (loss) before income tax	7,276,917	(199,899)	(43,063)	184,581	(116,839)		7,101,697

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2005						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amounts	Elimination	Total
Income tax expenses					(2,170,411)		(2,170,411)
Profit for the year							4,931,286
Attributable to:							
Shareholders of the Company							4,931,052
Minority interest							234
							4,931,286
Other information:							
Provision for doubtful debts	867,154	458,161	139,327	33,868	—	—	1,498,510
Capital expenditures for segment assets (1)	7,333,030	—	1,962,796	2,162,637	6,154,335	—	17,612,798

	As at 31 December 2005						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amounts	Elimination	Total
Total segment assets	107,723,037	4,087,906	7,518,912	17,794,349	55,667,580	(50,161,795)	142,629,989
Total segment liabilities	45,706,440	5,620,722	2,519,018	4,973,134	7,523,596	—	66,342,910

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2004 (Restated)						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amount	Elimination	Total
Revenue (Turnover):							
Usage fee	31,997,020	16,164,333	2,685,083	879,281	—		51,725,717
Monthly fee	6,922,400	4,638,024	—	—	—		11,560,424
Interconnection revenue	2,614,268	927,288	131,371	454,383	—		4,127,310
Leased lines rental	—	—	344,014	512,134	—		856,148
Other revenue	5,975,264	2,648,029	502,266	2,211	—		9,127,770
Total services revenue	47,508,952	24,377,674	3,662,734	1,848,009	—		77,397,369
Sales of telecommunications products	4,128	1,668,444	14,782	2,401	—		1,689,755
Total revenue from external customers	47,513,080	26,046,118	3,677,516	1,850,410	—		79,087,124
Intersegment revenue	135,521	107,477	2,059,881	1,264,140	—	(3,567,019)	—
Total revenue	47,648,601	26,153,595	5,737,397	3,114,550	—	(3,567,019)	79,087,124
Leased lines and network capacities	(284,092)	(6,685,059)	(361,412)	(67,565)	—		(7,398,128)
Interconnection charges	(6,452,988)	(2,794,843)	(917,294)	(918,480)	—	3,567,019	(7,516,586)
Depreciation and amortisation	(16,118,746)	(438,957)	(1,795,499)	(530,695)	(127,177)		(19,011,074)
Employee benefits expenses	(2,917,299)	(861,614)	(443,466)	(279,664)	(113,014)		(4,615,057)
Selling and marketing	(6,324,638)	(11,347,712)	(1,387,453)	(463,477)	—		(19,523,280)
General, administrative and other expenses	(7,068,838)	(2,206,458)	(865,889)	(320,115)	(38,941)		(10,500,241)
Cost of telecommunications products sold	(135,172)	(2,399,360)	(22,371)	(5,742)	—		(2,562,645)
Finance costs	(1,606,741)	(36,755)	(17,569)	(36,962)	(112,429)	114,381	(1,696,075)
Interest income	67,526	11,093	5,504	3,653	129,512	(114,381)	102,907
Other gains (loss) – net	22,382	42,695	(1,195)	140	39,625		103,647
Segment profit (loss) before income tax	6,829,995	(563,375)	(69,247)	495,643	(222,424)		6,470,592

(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

5.1 Business Segments (continued)

	2004 (Restated)						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amount	Elimination	Total
Income tax expenses					(1,977,141)		(1,977,141)
Profit for the year							4,493,451
Attributable to:							
Shareholders of the Company							4,493,451
Minority interest							—
							4,493,451
Other information:							
Provision for doubtful debts	1,317,374	645,470	164,514	64,462	—	—	2,191,820
Capital expenditures for segment assets (1)	6,396,406	—	2,444,623	1,949,202	7,373,877	—	18,164,108

	As at 31 December 2004 (Restated)						
	GSM Business	CDMA Business	Internet and Data Business	Long Distance Business	Unallocated amount	Elimination	Total
Total segment assets	102,693,857	7,119,115	9,470,980	18,042,840	62,101,761	(50,390,158)	149,038,395
Total segment liabilities	51,493,461	8,624,230	4,437,311	5,408,689	6,632,463	—	76,596,154

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

5. SEGMENT INFORMATION (continued)

5.2 Geographical Segments

The users of the Group's services 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 revenue from sales to all external customers.

Although the Group has its corporate headquarter in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment and other assets) are situated in mainland China, as the Group's principal activities are conducted in the PRC. For the year ended 31 December 2005, substantially all capital expenditures were incurred to acquire assets located in mainland China. Less than 10% of the Group's assets and operations are located outside the PRC. Accordingly, no geographical segment information is presented.

(All amounts in RMB thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	2005						2004
	Buildings	Tele-communications equipment	Office furniture, fixtures and others	Leasehold improvements	Construction in progress	Total	Total
							Restated
Cost or valuation:							
Beginning of year	15,394,795	128,530,475	5,103,469	1,112,408	23,694,508	173,835,655	155,313,692
Additions	70,669	681,730	362,792	40,839	16,456,768	17,612,798	18,811,959
Acquisition of Unicom International	—	—	—	—	—	—	57,425
Transfer from CIP	2,421,683	15,819,578	3,001,578	81,749	(21,324,588)	—	—
Disposals	(77,797)	(279,079)	(97,170)	(114,825)	—	(568,871)	(347,421)
End of year	17,809,350	144,752,704	8,370,669	1,120,171	18,826,688	190,879,582	173,835,655
Representing:							
At cost	15,438,577	144,752,704	8,370,669	1,120,171	18,826,688	188,508,809	171,464,882
At valuation	2,370,773	—	—	—	—	2,370,773	2,370,773
	17,809,350	144,752,704	8,370,669	1,120,171	18,826,688	190,879,582	173,835,655
Accumulated depreciation and impairment:							
Beginning of year	2,398,685	49,788,957	2,499,505	642,081	14,307	55,343,535	37,450,844
Charge for the year	1,285,243	17,360,339	1,071,238	214,681	—	19,931,501	18,175,605
Disposals	(62,401)	(206,386)	(68,274)	(114,825)	—	(451,886)	(282,914)
End of year	3,621,527	66,942,910	3,502,469	741,937	14,307	74,823,150	55,343,535
Net book value:							
End of year	14,187,823	77,809,794	4,868,200	378,234	18,812,381	116,056,432	118,492,120
Beginning of year	12,996,110	78,741,518	2,603,964	470,327	23,680,201	118,492,120	117,862,848

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	The Company			
	2005			2004
	Telecommunications equipment	Office furniture, fixtures and others	Total	Total
Cost :				
Beginning of year	53,713	8,476	62,189	67,553
Additions	82	156	238	1,556
Disposals	(1,391)	(101)	(1,492)	(6,920)
End of year	52,404	8,531	60,935	62,189
Accumulated depreciation:				
Beginning of year	6,264	6,478	12,742	14,532
Charge for the year	3,577	1,337	4,914	5,130
Disposals	(284)	(97)	(381)	(6,920)
End of year	9,557	7,718	17,275	12,742
Net book value:				
End of year	42,847	813	43,660	49,447
Beginning of year	47,449	1,998	49,447	53,021

During 2005, interest of approximately RMB683 million (2004: RMB648 million) was capitalised to construction-in-progress.

Buildings of the Group were valued at 31 March 2000 by an independent property valuer in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus amounted to RMB177 million. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB8.80 million for the year ended 31 December 2005 (2004: RMB8.80 million). As at 31 December 2005, the carrying amount of buildings would have been approximately RMB14,061 million (2004: RMB12,860 million) had they been stated at historical cost less accumulated depreciation. The directors considered the fair values of these buildings were not materially different from their carrying values as of 31 December 2005.

Telecommunications equipment held under finance leases represents wireless public phone equipment. As at 31 December 2005, net book value of wireless public phone equipment amounted to approximately RMB354 million (2004: RMB468 million) (Note 16).

(All amounts in RMB thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2005, the Group recognised losses for disposal of property, plant and equipment of approximately RMB25.13 million (2004: RMB10.54 million).

7. GOODWILL

	The Group	
	2005	2004
Cost:		
Goodwill arising from acquisition	3,143,983	3,429,706
Negative goodwill arising from acquisition (Note 1)	—	(7,727)
	3,143,983	3,421,979
Less: Accumulated amortisation	—	(285,723)
Accumulated amortisation - negative goodwill	—	301
	3,143,983	3,136,557

Goodwill arising from the acquisitions of Unicom New Century and Unicom New World in 2002 and 2003 (Note 20), represented the excess of the purchase considerations over the fair values of the separately identifiable net assets acquired.

From 1 January 2005, the Group ceased amortisation of goodwill and the accumulated amortisation as at 31 December 2004 was eliminated against the cost of goodwill (Note 2.2(c)).

Negative goodwill arising from the acquisition of Unicom International represented the excess of the fair value of the separately identifiable net assets acquired over the purchase consideration. Upon adoption of HKFRS 3, the negative goodwill has been derecognised at 1 January 2005, with corresponding adjustments to the opening balance of retained earnings of the Group (Note 2.2(c)).

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segments. The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management, including expected profit margins, growth rates and the applicable discount rates. Management determined budgeted profit margins based on past performance and its expectations in relation to market developments. The expected growth rates used are consistent with the forecasts of the business segments. The discount rates used are pre-tax and reflect specific risks relating to the business. Based on management's assessment, there was no impairment of goodwill as at 31 December 2005.

8. OTHER ASSETS

		The Group	
	Note	2005	2004 Restated
Direct incremental costs	2.2(d)	3,191,853	3,546,437
Customer acquisition costs of contractual CDMA subscribers	12(a), 4.2(a)	2,416,224	3,884,685
Purchased software		276,803	295,768
Prepaid rental and leased lines		858,661	958,886
Long-term prepayment for lease of land	2.2(a)	696,913	411,940
Others		378,129	597,045
Total		7,818,583	9,694,761

For the year ended 31 December 2005, amortisation of direct incremental costs for activating GSM and CDMA subscribers and customer acquisition costs of contractual CDMA subscribers amounted to RMB1,582 million (2004: RMB936 million) and RMB5,948 million (2004: RMB6,121 million) respectively, which had been included in selling and marketing expenses. For the year ended 31 December 2005, other amortisation amounted to approximately RMB437 million (2004: RMB664 million), which had been included in depreciation and amortisation.

Note:

(i) The Group's prepayment for lease of land represents prepaid operating lease payments for land use rights outside Hong Kong and their net book value are analysed as follows:

	The Group	
	2005	2004
Held on:		
Leases of between 10 to 50 years	682,451	411,940
Leases of less than 10 years	14,462	—
	696,913	411,940

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION

Provision for taxation represents:

	2005	2004 Restated
Provision for enterprise income tax on the estimated taxable profits for the year	2,034,520	1,422,635
Deferred taxation	135,891	554,506
	2,170,411	1,977,141

(a) There is no Hong Kong profits tax liability of the Company, as the Company does not have any assessable income sourced from Hong Kong for 2005 and 2004.

(b) Unicom International assessed its profit tax liabilities in Hong Kong using the tax rate of 17.5%. The profit tax liability of Unicom International is about RMB1 million for 2005 (2004: Nil).

(c) Unicom Macau assessed its profit tax liabilities in Macau, using an aggregated tax rate from 3% to 12%. There is no Macau profit tax liability of Unicom Macau for 2005 as it was in a loss making position in both years.

(d) For 2004, both the tax liabilities of CUCL and Unicom New World were assessed in accordance with FIE ("Foreign Investment Enterprises") taxation requirements on a consolidated basis as two single entities and settled centrally in Beijing as approved by the tax authority, respectively.

For 2005, the tax liabilities of CUCL and Unicom New World were assessed on a consolidated basis as a single entity and settled centrally in Beijing since the legal entity of Unicom New World was dissolved and the operations of Unicom New World was combined with CUCL.

9. TAXATION (continued)

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	The Group	
	2005	2004
PRC statutory tax rate (33%)	33.0%	33.0%
Non-deductible expenses	1.9%	3.2%
Non-taxable income		
- Connection fee	(1.2%)	(2.1%)
- Interest income	(0.1%)	(0.7%)
- Line leasing income	(0.1%)	(0.1%)
Rate differential on PRC operations	(2.2%)	(2.1%)
Increase in opening deferred tax assets resulting from an increase in tax rate	—	(0.4%)
Investment tax credits for domestic equipment	(0.7%)	(0.2%)
Effective tax rate	30.6%	30.6%

Tax effect of preferential tax rate is as follows:

	2005	2004 Restated
Aggregate amount (RMB in millions)	155	135
Per share effect (RMB)	0.012	0.011

(e) For 2005 and 2004, tax credits represented investment tax credits relating to the additions of certain domestic equipment that were deductible against current tax.

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	The Group	
	2005	2004 Restated
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	1,004,323	1,338,415
– Deferred tax asset to be recovered within 12 months	737,740	606,009
	1,742,063	1,944,424
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	(1,278,531)	(1,475,650)
– Deferred tax liabilities to be settled within 12 months	(128,298)	—
	(1,406,829)	(1,475,650)
Net deferred tax assets after offsetting:	335,234	468,774
Deferred tax liabilities that cannot be offset:	(5,613)	(3,262)

There were no material unrecognized deferred tax assets as of 31 December 2005 and 2004.

9. TAXATION (continued)

The movement of the net deferred tax assets/liabilities is as follows:

	The Group	
	2005	2004 Restated
Net deferred tax assets after offsetting :		
– Beginning of the year	468,774	1,022,108
– Deferred tax charged to the income statement	(133,540)	(553,334)
– End of the year	335,234	468,774
The deferred tax liabilities that can not be offset:		
– Beginning of the year	(3,262)	—
– Acquisition of subsidiary	—	(2,090)
– Deferred tax charged to the income statement	(2,351)	(1,172)
– End of the year	(5,613)	(3,262)

(All amounts in RMB thousands unless otherwise stated)

9. TAXATION (continued)

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

	Note	The Group 31 December 2005	The Group 31 December 2004 Restated
PRC Enterprises			
Deferred tax assets:			
Interest on loans from CCF joint ventures	(f)	96,012	150,954
Loss arising from terminations of CCF Arrangements	(f)	111,003	174,637
Provision for impairment loss for property, plant and equipment		4,721	4,721
Provision for doubtful debts		399,590	526,514
Write-down of inventories to net realizable value		43,780	39,103
Accruals of retirement benefits		4,670	6,678
Additional depreciation deductible for tax in future years		12,361	18,258
Monetary housing benefits		11,784	17,171
Differences on tax basis for the residual value of property, plant and equipment		10,045	10,045
Net amount of deferral and amortisation of upfront non-refundable revenue		891,467	979,603
Accruals of expenses not yet deductible for tax purpose		137,279	—
Others		19,351	16,740
		1,742,063	1,944,424
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		—	(23,018)
Net amount of capitalisation and amortisation of direct incremental costs		(925,462)	(1,053,760)
Capitalised interest already deducted for tax purpose		(481,367)	(398,872)
		(1,406,829)	(1,475,650)
		335,234	468,774
Hong Kong Enterprises			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		(5,613)	(3,262)

9. TAXATION (continued)

(f) Prior to 2000, in the process of developing its cellular networks, the GSM Business has entered into cooperation agreements with certain contractual joint ventures (the "CJVs") established in the PRC. Each CJV was established by one or more Chinese enterprises and one or more foreign parties. The aforementioned cooperation arrangements are referred to as the China-China-Foreign Arrangement (the "CCF Arrangements"). Pursuant to the CCF Arrangements, the CJVs have extended funding to the GSM Business for the construction of telecommunications systems and network equipment in the PRC. Based on the terms of the cooperation agreements, the CCF Arrangements had been accounted for as secured financing arrangements to the GSM Business, and interest had been accrued by the GSM Business based on the funds provided by the CJVs at the then prevailing market borrowing rates. All CCF Arrangements had been terminated in 1999 and 2000, the related loss on the termination of CCF Arrangements was charged to the income statement as incurred. Pursuant to the approval of relevant tax authorities, all the interest costs and the loss on termination of these CCF Arrangements can be deducted against current taxable income over 7 years. The resulting deferred tax assets were recognised accordingly.

10. INVENTORIES

	The Group	
	2005	2004
Handsets	1,121,288	2,045,502
Telephone cards	592,490	832,050
Others	394,034	237,080
	2,107,812	3,114,632

The cost of inventories recognised as expense and included in cost of telecommunications product sold amounted to RMB3,575 million (2004: RMB2,524 million).

For the year ended 31 December 2005, the write-down of inventories to net realisable value amounted to RMB20 million (2004: RMB69 million), which was mainly due to the decline of market values of handsets. There has been no reversal of write-down of inventories, arising from an increase in net realisable value, during the year.

(All amounts in RMB thousands unless otherwise stated)

11. ACCOUNTS RECEIVABLE, NET

		The Group	
		2005	2004
Accounts receivable for GSM services		4,021,887	4,464,963
Accounts receivable for CDMA services		2,648,504	3,448,273
Accounts receivable for Data and Internet services		522,579	537,418
Accounts receivable for Long Distance services		444,010	712,833
	Sub-total	7,636,980	9,163,487
Less:	Provision for doubtful debts for GSM services	(1,821,057)	(2,521,313)
	Provision for doubtful debts for CDMA services	(954,185)	(1,110,024)
	Provision for doubtful debts for Data and Internet services	(83,711)	(200,373)
	Provision for doubtful debts for Long Distance services	(229,598)	(101,797)
		4,548,429	5,229,980

The aging analysis of accounts receivable was as follows:

	The Group	
	2005	2004
Not yet due (within credit period)	2,884,068	3,595,337
Due within three months	1,062,895	1,373,240
Three months to one year	1,636,529	2,131,065
More than one year	2,053,488	2,063,845
	7,636,980	9,163,487

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

There is no concentration of credit risk with respect to individual customers' receivables, as the Group has a large number of customers.

11. ACCOUNTS RECEIVABLE, NET (continued)

Provision for doubtful debts is analyzed as follows:

	The Group	
	2005	2004
Balance, beginning of year	3,933,507	3,488,959
Provision for the year	1,498,510	2,191,820
Acquisition of Unicom International	—	9,306
Written-off during the year	(2,343,466)	(1,756,578)
Balance, end of year	3,088,551	3,933,507

12. PREPAYMENTS AND OTHER CURRENT ASSETS

		The Group		The Company	
	Note	2005	2004	2005	2004
Prepaid rental		322,243	277,999	—	—
Deposits and prepayments		973,698	1,334,220	3,357	6,063
Interest receivable		1,880	1,414	45,792	27,341
Advances to employees		163,838	164,386	—	—
Customer acquisition costs of contractual CDMA subscribers	(a)	527,577	860,225	—	—
Others		353,231	421,470	1,217	1,059
		2,342,467	3,059,714	50,366	34,463

(All amounts in RMB thousands unless otherwise stated)

12. PREPAYMENTS AND OTHER CURRENT ASSETS (continued)

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

	The Group		The Company	
	2005	2004	2005	2004
Within one year	2,249,097	2,855,331	49,419	33,399
Over one year	93,370	204,383	947	1,064
	2,342,467	3,059,714	50,366	34,463

Note:

(a) For the year ended 31 December 2005, amortisation of customer acquisition costs of contractual CDMA subscribers amounted to approximately RMB5,948 million (2004: RMB6,121 million), which was recorded in "selling and marketing" expenses. As at 31 December 2005, the carrying amount of unamortised customer acquisition costs of contractual CDMA subscribers totalled approximately RMB2,944 million (2004: RMB4,745 million), with approximately RMB528 million (2004: RMB860 million) recorded in "prepayment and other current assets" (for contracts expiring within 1 year) and approximately RMB2,416 million (2004: RMB3,885 million) recorded in "other assets" (for contracts expiring over 1 year) (Note 8).

13. BANK BALANCES AND CASH

	The Group		The Company	
	2005	2004	2005	2004
Cash and cash equivalents	5,471,576	4,629,553	299,744	371,994
Restricted bank deposits	—	25,911	—	—
	5,471,576	4,655,464	299,744	371,994

The effective interest rate on cash and cash equivalents ranges from 0.72% to 4.32 % (2004: from 0.72% to 2.63%); the bank deposits have an average maturity of 45 days.

14. SHARE CAPITAL

	The Company	
	2005 HK$'000	2004 HK$'000
Authorised: 30,000,000,000 ordinary shares of HK$0.1 each	3,000,000	3,000,000

	The Company				
	Number of shares ('000)	Ordinary shares (HK$'000)	Share capital (RMB'000 equivalent)	Share premium	Total
At 1 January 2004	12,553,172	1,255,317	1,331,390	52,483,266	53,814,656
Employee share option scheme					
– proceeds from shares issued (Note 28)	10,320	1,032	1,097	63,028	64,125
At 31 December 2004	12,563,492	1,256,349	1,332,487	52,546,294	53,878,781
Employee share option scheme					
– proceeds from shares issued (Note 28)	10,773	1,077	1,134	54,720	55,854
At 31 December 2005	12,574,265	1,257,426	1,333,621	52,601,014	53,934,635

The total authorized number of ordinary shares is 30 billion ordinary shares (2004: 30 billion ordinary shares) with a par value of HK$0.10 per share (2004: HK$0.10 per share). All issued shares are fully paid.

Increase of 10,773,200 ordinary shares in year 2005 (2004: 10,320,000) represented the ordinary shares in issued under the share option scheme (Note 28(g)).

(All amounts in RMB thousands unless otherwise stated)

15. LONG-TERM BANK LOANS

		The Group		The Company	
	Interest rates and final maturity	2005	2004	2005	2004
RMB denominated bank loans	Fixed interest rate ranging from 3.60% to 5.58% (2004: 4.78% to 5.73%) per annum with maturity through 2010 (2004: maturity through 2010) (Note(a))				
– secured		755,000	6,804,566	—	—
– unsecured		6,687,468	20,487,127	—	—
		7,442,468	27,291,693	—	—
USD denominated bank loans	Floating interest rate of USD LIBOR plus interest margin of 0.28% to 0.44% (2004: 0.28% to 0.44%) per annum with maturity through 2010 (2004: maturity through 2010 (Note (b))	9,684,240	9,931,800	5,649,162	5,793,550
Less: Current portion		(5,145,190)	(11,086,305)	(1,614,046)	—
		11,981,518	26,137,188	4,035,116	5,793,550

15. LONG-TERM BANK LOANS (continued)

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

	The Group		The Company	
	2005	2004	2005	2004
Balances due:				
– not later than one year	5,145,190	11,086,305	1,614,046	—
– later than one year and not later than two years	9,639,408	10,226,776	—	1,655,360
– later than two years and not later than five years	2,342,110	14,092,792	4,035,116	2,482,830
– Thereafter	—	1,817,620	—	1,655,360
	17,126,708	37,223,493	5,649,162	5,793,550
Less: Portion classified as current liabilities	(5,145,190)	(11,086,305)	(1,614,046)	—
	11,981,518	26,137,188	4,035,116	5,793,550

Note:

(a) As at 31 December 2005, long-term bank loans of the Group denominated in RMB were secured by the following:

(i) Approximately RMB755 million (2004: RMB6,805 million) of long-term bank loans were collateralized by the future service fee revenue to be generated by the cellular operations of the relevant branches. No long-term bank loans were guaranteed by Unicom Group (2004: RMB2,824 million);

(ii) There were no long-term bank loans which had collateral comprising of restricted bank deposits (2004: RMB26 million).

(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, under which the Company lent the proceeds from the bank loans to CUCL with similar terms to finance the network construction of CUCL.

In addition, on 25 February 2004, CUCL signed an agreement with various financial institutions for a long-term syndicated loan of USD0.5 billion to finance 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.

(c) The carrying amounts of long-term bank loans approximate their fair value.

(All amounts in RMB thousands unless otherwise stated)

16. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases are analysed as follows:

	The Group	
	2005	2004
Total minimum lease payments under finance leases:		
– not later than one year	443,400	938,189
– later than one year and not later than two years	152,058	405,453
– later than two years and not later than five years	875	74,078
– later than five years	—	137,104
	596,333	1,554,824
Less: Future finance charges	(30,335)	(127,679)
Present value of minimum obligations	565,998	1,427,145
Representing obligations under finance leases:		
– current liabilities	420,631	938,189
– non-current liabilities	145,367	488,956
The present value of obligations under finance leases:		
– not later than one year	420,631	938,189
– later than one year and not later than two years	144,541	358,850
– later than two years and not later than five years	826	60,692
– later than five years	—	69,414
	565,998	1,427,145
Less: Portion classified as current liabilities	(420,631)	(938,189)
	145,367	488,956

Obligations under finance leases were mainly related to wireless public phone equipment (Note 6).

For 2004 and 2005, interest rates of obligations under finance leases ranged from 4% to 6% per annum.

The carrying amounts of obligations under finance leases approximate their fair value.

17. PAYABLES AND ACCRUED LIABILITIES

		The Group		The Company	
	Note	2005	2004	2005	2004
Payables to contractors and equipment suppliers		11,156,462	10,592,518	—	—
Accrued expenses		1,835,353	1,315,417	49,057	25,580
Payables to telecommunications products suppliers		1,372,853	1,772,693	—	—
Customer deposits		1,456,601	1,370,015	—	—
Salary and welfare payables		464,372	465,154	—	—
Amounts due to Services Provider/ Content Provider		716,180	573,804	—	—
Provision for subscriber points expenses	4.1(d)	337,414	39,766	—	—
Maintenance expense payable		542,540	138,301	—	—
Other	(a)	644,853	518,081	13,022	21,778
		18,526,628	16,785,749	62,079	47,358

Note(a): Other included miscellaneous accruals for housing fund and other government surcharges.

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

	The Group		The Company	
	2005	2004	2005	2004
Less than six months	11,260,366	13,343,784	62,079	33,608
Six months to one year	4,766,400	2,257,802	—	4,500
More than one year	2,499,862	1,184,163	—	9,250
	18,526,628	16,785,749	62,079	47,358

18. SHORT-TERM BONDS

On 19 July 2005, CUCL completed an offering of short-term bonds, consisting of two tranches, in the PRC interbank debenture market. The first tranche of the bonds was issued for an aggregate amount of RMB9.0 billion with a maturity period of 365 days. The second tranche of the bonds was issued for an aggregate amount of RMB1.0 billion with a maturity period of 180 days. The effective interest rate as at 31 December 2005 was 3.19%.

(All amounts in RMB thousands unless otherwise stated)

19. SHORT-TERM BANK LOANS

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

	The Group				
	Balance at year end	Weighted average interest rate at year end Per annum	Maximum amount outstanding during the year	Average amount outstanding during the year*	Weighted average interest rate during the year** Per annum
31 December 2005					
RMB denominated bank loans (Note (a))					
– secured	1,000,000				
– unsecured	4,302,661				
	5,302,661	4.86%	10,046,495	6,767,046	4.86%
HK$ denominated bank loans					
– unsecured (Note (b))	1,721,697	3.10%	1,761,748	1,209,342	2.00%
	7,024,358				
31 December 2004					
RMB denominated bank loans (Note (a))					
– secured	100,000				
– unsecured	8,131,431				
	8,231,431	4.86%	10,975,199	9,603,315	5.06%
HK$ denominated bank loans					
– unsecured (Note (b))	696,986	0.90%	696,986	348,493	1.08%
	8,928,417				

19. SHORT-TERM BANK LOANS (continued)

	The Company				
	Balance at year end	Weighted average interest rate at year end per annum	Maximum amount outstanding during the year	Average amount outstanding during the year*	Weighted average interest rate during the year** per annum
31 December 2005 (Note (b))					
HK$ denominated bank loans					
– unsecured	1,721,697	3.10%	1,761,748	1,209,342	2.00%
31 December 2004 (Note (b))					
HK$ denominated bank loans					
– unsecured	696,986	0.90%	696,986	348,493	1.08%

* The average amount outstanding was computed by dividing the total of outstanding balance as at 1 January and 31 December, as applicable, by 2.

** The weighted average interest rate is computed by dividing the total of weighted average interest rates as at 1 January and 31 December, as applicable, by 2.

Notes:

(a) As at 31 December 2005, there were no short-term bank loans guaranteed by Unicom Group (2004: RMB3,397 million).

As at 31 December 2005, there were no short-term bank loans secured by future service fee revenue to be generated by the cellular operations (2004: RMB100 million).

As at 31 December 2005, approximately RMB1,000 million (2004: Nil) of short-term loan was borrowed from Zhonghai Trust Investment Co., Ltd., and guaranteed by Industrial and Commercial Bank of China Beijing branch to finance working capital of the Group. The loan will be repayable in 1 year and carries an interest rate of 4.30% per annum.

(b) As at 31 December 2005, HK$ denominated short-term bank loans of the Company of approximately HK$1,655 million (equivalent to approximated RMB1,722 million) were borrowed to finance working capital of the Group. The bank loans were repayable in 1 year and carried an interest rate of 0.22% to 0.25% over HIBOR per annum.

(c) The carrying amounts of short-term loans approximate their fair value.

(All amounts in RMB thousands unless otherwise stated)

20. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005	2004
Unlisted equity investments, at cost	55,341,026	55,290,963

During 2004, the Company acquired the entire equity interests in Unicom International, which holds the entire equity interests in Unicom USA. The acquisition became effective in September 2004 (see details in Note 1).

As at 31 December 2005, the details of the Company's subsidiaries were as follows:

Name	Place and date of incorporation and legal entity	Percentage of equity interests held: Direct	Percentage of equity interests held: Indirect	Particular of issued share capital	Principal activities
China Unicom Corporation Limited (On 1 September 2005, CUCL combined with Unicom New World, and Unicom New World was legally dissolved)	The PRC, 21 April 2000, limited liability company	100.00%	—	47,425,763	Telecommunications operation
Unicom New Century (BVI) Limited	British Virgin Islands, 23 October 2002, limited liability company	100.00%	—	12	Investment holding
Unicom New World (BVI) Limited	British Virgin Islands, 5 November 2003, limited liability company	100.00%	—	1	Investment holding
China Unicom International Limited	Hong Kong, 24 May 2000, limited liability company	100.00%	—	106	Telecommunications service
China Unicom USA Co.	USA, 24 May 2002 corporation	—	100%	83	Telecommunications service

20. INVESTMENT IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES (continued)

Name	Place and date of incorporation and legal entity	Percentage of equity interests held		Particular of issued share capital	Principal activities
		Direct	Indirect		
China Unicom (Macau) Company Limited	Macau, 15 October 2004, limited liability company	99.00%	1.00%	60,894	Telecommunications operation
Unicom Huasheng Telecommunications Technology Company Limited	The PRC, 1 July 2005, limited liability company	—	95.00%	50,000	Telecommunication products sales

21. REVENUE (TURNOVER)

Revenue primarily comprises usage fees, monthly fees, interconnection revenue, rental income from leased lines and IRU, and sales of telecommunications products earned by the Group from GSM, CDMA, data, Internet and long distance. 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.

Revenue is presented net of business tax and government surcharges. Relevant business tax and government surcharges amounted to RMB2,166 million for the year ended 31 December 2005 (2004: RMB 2,051 million).

(All amounts in RMB thousands unless otherwise stated)

21. REVENUE (TURNOVER) (continued)

The major components of revenue are as follows:

	Note	2005	2004 Restated
GSM Business			
Usage fee	(a) (i)	32,077,305	31,997,020
Monthly fee	(b)	6,840,720	6,922,400
Interconnection revenue	(c)	3,466,067	2,614,268
Other revenue	(e)	9,751,436	5,975,264
Total GSM service revenue		52,135,528	47,508,952
CDMA Business			
Usage fee	(a) (i)	16,726,678	16,164,333
Monthly fee	(b)	4,905,538	4,638,024
Interconnection revenue	(c)	1,398,577	927,288
Other revenue	(e)	4,546,143	2,648,029
Total CDMA service revenue		27,576,936	24,377,674
Data and Internet Business			
Usage fee	(a) (ii)	2,540,574	2,685,083
Interconnection revenue	(c)	102,989	131,371
Rental income	(d)	393,659	344,014
Other revenue	(e)	12,745	502,266
Total Data and Internet service revenue		3,049,967	3,662,734
Long Distance Business			
Usage fee	(a) (ii)	599,251	879,281
Interconnection revenue	(c)	434,577	454,383
Rental income	(d)	489,969	512,134
Other revenue	(e)	776	2,211
Total Long Distance service revenue		1,524,573	1,848,009
Total service revenue		84,287,004	77,397,369
Sales of telecommunications products		2,761,827	1,689,755
Total revenue		87,048,831	79,087,124

21. REVENUE (TURNOVER) (continued)

Notes:

(a) Usage fees comprise:

(i) charges for incoming and outgoing calls made by cellular subscribers including charges for local calls, domestic direct dial ("DDD") and international direct dial ("IDD") as well as roaming fees for calls made by cellular subscribers outside their local service areas; and

(ii) charges for IP telephone calls, data and Internet services and fixed line long distance calls.

(b) Monthly fees represent fixed amounts charged to cellular subscribers on a monthly basis for maintaining their access to the related services.

(c) Interconnection revenue represents amounts received from other operators, including Unicom Group, for calls from their networks to the Group's networks. It also includes roaming-in fees received from other operators, including Unicom Group, for calls made by their subscribers using the Group's cellular networks (Notes 32.1(a) and 32.2(a)).

(d) Rental income represents rentals received for leasing of transmission lines and IRU to Unicom Group, business customers or other Domestic Carriers in the PRC.

(e) Other revenue mainly represents revenue from the provision of value-added services such as short message, CDMA1X wireless data services and secretarial services to subscribers.

(All amounts in RMB thousands unless otherwise stated)

22. EXPENSES BY NATURE

The following expenses are analysed by nature.

	Note	2005	2004 Restated
After charging/(crediting):			
Depreciation:			
– Assets held under finance leases		187,733	111,473
– Other fixed assets		19,743,768	18,064,132
Total depreciation	2.2(a), 6	19,931,501	18,175,605
Amortisation:			
– Goodwill	2.2(c), 7	—	171,184
– Other amortisation	8	436,680	664,285
Total amortisation		436,680	835,469
Amortisation of direct incremental costs for activating cellular subscribers	2.2(d)	1,582,282	936,105
Amortisation of customer acquisition costs of contractual CDMA subscribers	12(a)	5,947,631	6,120,737
Provision for doubtful debts:			
– GSM Business		867,154	1,317,374
– CDMA Business		458,161	645,470
– Data and Internet Business		139,327	164,514
– Long Distance Business		33,868	64,462
Total provision for doubtful debts	11	1,498,510	2,191,820
Write-down of inventories to net realizable value		20,392	69,475
Employee benefit expenses	23	5,616,312	4,615,057
Cost of inventories	10	3,575,316	2,524,483
Auditors' remuneration		59,884	57,522

22. EXPENSES BY NATURE (continued)

	Note	2005	2004 Restated
Operating lease expense:			
– Leased lines		822,673	809,202
– CDMA network capacities	4.2(b)	7,924,644	6,588,926
– Lease of land	2.2(a)	28,403	26,000
– Other lease expense		1,129,115	1,042,020
Total operating lease expense		9,904,835	8,466,148
Other expenses:			
– Repair and maintenance		2,397,501	1,648,986
– Traveling, entertainment and meeting		663,774	1,322,438
– Power and water charges		2,219,480	1,763,766
– Office expenses		986,502	706,892

23. EMPLOYEE BENEFIT EXPENSES

	Note	2005	2004 Restated
Salaries and wages		4,268,004	3,647,629
Contributions to defined contribution pension schemes	24	412,825	244,397
Contributions to supplementary defined contribution pension schemes	24	58,222	41,596
Special monetary housing benefits	25	41,136	21,907
Contributions to other housing fund	25	280,393	224,686
Other housing benefits	25	447,315	345,885
Share-based compensation costs	2.2(b)	108,417	88,957
		5,616,312	4,615,057

(All amounts in RMB thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES (continued)

23.1 Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Note	Fees	Salary and allowances	Bonuses paid and payable	Other benefits (a)	Contributions to pension schemes	Total
Chang Xiaobing		—	2,525	1,669	—	19	4,213
Shang Bing		—	2,209	1,285	—	19	3,513
Tong Jilu		—	1,788	1,038	—	19	2,845
Li Qiuhong	(b)	—	672	335	—	6	1,013
Zhao Le	(c)	—	809	410	—	7	1,226
Lo Wing Yan, William		—	2,074	277	513	13	2,877
Ye Fengping		—	1,420	712	—	13	2,145
Liu Yunjie		316	—	—	—	—	316
Craig O. McCaw	(d)	114	—	—	—	—	114
Wu Jinglian		316	—	—	—	—	316
Shan Weijian		316	—	—	—	—	316
Cheung Wing Lam, Linus		316	—	—	—	—	316
Total		1,378	11,497	5,726	513	96	19,210

23. EMPLOYEE BENEFIT EXPENSES (continued)

23.1 Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Note	Fees	Salary and allowances	Bonuses paid and payable	Other benefits (a)	Contributions to pension schemes	Total
Chang Xiaobing	(e)	—	76	—	—	1	77
Shang Bing	(f)	—	347	201	—	5	553
Tong Jilu	(g)	—	1,655	879	—	28	2,562
Zhao Le	(c)	—	1,316	668	—	12	1,996
Lo Wing Yan, William		—	2,105	274	—	13	2,392
Ye Fengping		—	1,434	730	—	13	2,177
Wang Jianzhou	(h)	—	2,160	—	—	54	2,214
Shi Cuiming	(i)	—	150	2,921	—	2	3,073
Ge Lei	(j)	27	—	—	—	—	27
Liu Yunjie	(k)	292	—	—	—	—	292
Craig O.McCaw	(d)	319	—	—	—	—	319
Lee Hon Chiu	(l)	116	—	—	—	—	116
Wu Jinglian		319	—	—	—	—	319
Shan Weijian		319	—	—	—	—	319
Cheung Wing Lam, Linus	(m)	203	—	—	—	—	203
Total		1,595	9,243	5,673	—	128	16,639

Notes:

(a) Other benefits include the benefits related to share options;

(b) Mr. Li Qiuhong was appointed as Executive Director on 19 July 2005;

(c) Mr. Zhao Le was appointed as Executive Director on 1 February 2004 and resigned as Executive Director on 19 July 2005;

(d) Mr. Craig O. McCaw resigned as Independent Non-Executive Director on 12 May 2005;

(e) Mr. Chang Xiaobing was appointed as Chairman on 21 December 2004;

(f) Mr. Shang Bing was appointed Executive Director on 5 November 2004;

(All amounts in RMB thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES (continued)

23.1 Directors' and senior management's emoluments (continued)

Notes: (continued)

(g) Mr. Tong Jilu was appointed as Executive Director on 1 February 2004;

(h) Mr. Wang Jianzhou resigned as Chairman on 5 November 2004;

(i) Mr. Shi Cuiming resigned as Executive Director on 1 February 2004;

(j) Mr. Ge Lei resigned as Non-Executive Director on 1 February 2004;

(k) Mr. Liu Yunjie was appointed as Non-Executive Director on 1 February 2004;

(l) Mr. Lee Hon Chiu resigned as Independent Non-Executive Director on 12 May 2004; and

(m) Mr. Cheung Wing Lam, Linus was appointed as Independent Non-Executive Director on 12 May 2004.

During 2005, no share options were granted to the directors (2004: 4,020,000) and no directors waived the right to receive emoluments during the year (2004: Nil).

During 2004 and 2005, the Company did not incur any payment to any director for loss of office or as inducement to any director to join the Company.

23.2 Five highest paid individuals

The five individuals whose emoluments were the highest of the Group for 2005 and 2004 were all directors of the Company whose emoluments are reflected in the analysis presented above.

24. RETIREMENT BENEFITS

All the full time employees of the Group are covered by a state-sponsored pension scheme under which the employees are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make defined contributions to the pension scheme at the rate of 19% for the year ended 31 December 2005 (2004: 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 16% (2004: 2% to 24%) of the monthly salary of each employee. There were no vested benefits attributable to past services upon adoption of the plan.

Retirement benefits charged to the income statement were as follows:

	2005	2004
Contributions to defined contribution pension schemes	412,825	244,397
Contributions to supplementary defined contribution pension schemes	58,222	41,596

25. HOUSING BENEFITS

Under housing reform schemes in accordance with government regulations at the provincial level in the PRC, the Group provided benefits to certain qualified employees to enable them to purchase living quarters at a discount. For GSM Business, certain of these living quarters were provided by Unicom Group and the related benefits were not charged to the Group. Housing benefits which were not charged to the Group amounted to approximately RMB14.9 million for 2005 (2004: RMB14.9 million).

In addition, all of the full time employees of the Group are entitled to participate in a state-sponsored housing fund. The fund can be used for the construction of living quarters or may be withdrawn upon the retirement of the employees. The Group is required to make annual contributions to the housing fund at a rate of 10% (2004: 10%) of the employees' basic salaries.

25. HOUSING BENEFITS (continued)

According to the central government policy on housing reform based on a State Council circular issued in 1998, monetary housing subsidies in the form of special cash payments are to be made by certain PRC enterprises to their employees in order to enable them to purchase living quarters. Under this general policy, enterprises are allowed to establish their own housing reform schemes taking into consideration the actual financial capability of the enterprises.

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

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

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

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

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

For the years ended 31 December 2005 and 2004, certain provinces achieved the annual performance budget and were thus approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the years ended 31 December 2005 and 2004 amounted to approximately RMB41.1 million and RMB21.9 million respectively, based on the aforementioned distribution plan. The remaining provinces were not entitled to the special monetary housing benefits in 2005 since they did not achieve their annual performance budget in 2005 and accordingly, no provision for such benefits was made.

25. HOUSING BENEFITS (continued)

The expenses incurred by the Group in relation to the housing benefits described above are as follows:

	2005	2004
Special monetary housing benefits	41,136	21,907
Contributions to other housing fund	280,393	224,686
Other housing benefits	447,315	345,885
	768,844	592,478

26. FINANCE COSTS

	2005	2004
Interest on bank loans repayable over 5 years	18,033	537,261
Interest on bank loans and bonds repayable within 5 years	1,955,231	1,750,209
Interest element of finance lease	42,697	28,848
Less: Amounts capitalised in construction-in-progress	(682,590)	(647,851)
Total interest expenses	1,333,371	1,668,467
Exchange (gain)/loss, net	(273,647)	7,657
Bank charges	39,597	19,951
	1,099,321	1,696,075

(All amounts in RMB thousands unless otherwise stated)

27. PROFITS ATTRIBUTABLE TO SHAREHOLDERS

(a) CUCL and Unicom New World (which ceased to be legal entities, with operations succeeded by CUCL), are registered as foreign investment enterprises in the PRC. In accordance with the Articles of Association of CUCL and Unicom New World, they are required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from profit after tax and minority interests but before dividend distribution.

CUCL and Unicom New World are required to allocate at least 10% of their profit after tax and minority interests determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon approval obtained from the relevant authority, to offset accumulated losses or increase capital.

CUCL appropriated approximately RMB463 million (2004: RMB429 million) to the general reserve fund for the year ended 31 December 2005.

Appropriation to the staff bonus and welfare fund is at the discretion of the directors. The staff bonus and welfare fund can only be used for special bonuses or the collective welfare of the employees and are not distributable as cash dividends. Under HKFRS, the appropriations to the staff bonus and welfare fund will be charged to income statement as expenses incurred since any assets acquired through this fund belong to the employees. For the year ended 31 December 2005, no appropriation to staff bonus and welfare fund has been made (2004: Nil).

(b) At a meeting held on 31 December 2005, the Board of directors of CUCL approved the payment of final dividend of RMB3.28 billion to the Company and relevant dividend was recorded in 2005.

For the year ended 31 December 2005, profit attributable to shareholders included a profit of approximately RMB3,130.3 million (2004: loss RMB80 million) which has been dealt with in the financial statements of the Company. As at 31 December 2005, the amount of distributable reserves to shareholders of the Company amounted to approximately RMB3,093.1 million (2004: RMB1,220 million).

28. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") and a fixed award pre-global offering share options 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 and their related weighted average exercise prices are as follows:

	The Company			
	2005		2004	
	Average exercise price in HK$ per share	Number of share options involved	Average exercise price in HK$ per share	Number of share options involved
Balance, beginning of year	6.45	274,063,400	6.72	172,367,400
Granted	—	—	5.92	113,322,000
Forfeited	7.15	(5,688,200)	4.30	(1,306,000)
Exercised	4.60	(10,773,200)	5.85	(10,320,000)
Balance, end of year	6.51	257,602,000	6.45	274,063,400

As at 31 December 2005, out of the 257,602,000 outstanding options (2004: 274,063,400 options), 162,981,160 options (2004: 87,611,360 options) were exercisable, and the weighted average exercise price was HK$7.12 (2004: HK$8.69).

(All amounts in RMB thousands unless otherwise stated)

28. SHARE OPTION SCHEME (continued)

As at 31 December 2005, information of outstanding options are summarized 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 at 31 December 2005	Number of options outstanding as at 31December 2004
Options granted under the Pre-Global Offering Share Option Scheme:				
22 June 2000 (Note (a))	22 June 2002 to 21 June 2010	HK$15.42	24,309,600	25,436,600
Options granted under the Share Option Scheme:				
30 June 2001 (Note (b))	30 June 2001 to 21 June 2010	HK$15.42	6,508,000	6,508,000
2 August 2002 (Note (c))	10 July 2003 to 9 July 2008	HK$6.18	25,012,800	25,954,800
21 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.30	91,381,600	102,476,000
30 May 2003 (Note (d))	21 May 2004 to 20 May 2009	HK$4.66	212,000	366,000
20 July 2004 (Note (e))	20 July 2005 to 19 July 2010	HK$5.92	109,524,000	112,668,000
21 December 2004 (Note (f))	21 December 2005 to 20 December 2010	HK$6.20	654,000	654,000
			257,602,000	274,063,400

(a) According to the resolution passed by the Board of Directors in June 2000, a total of the 27,116,600 options were granted on 22 June 2000 to the senior management, including directors, and certain other employees (which represent, on their full exercise, 27,116,600 shares of the Company) under the fixed award Pre-Global Offering Share Option Scheme adopted by the Company on 1 June 2000 on the following terms:

(i) the exercise price is equivalent to the share issue price of the Global Offering of HK$15.42 per share (excluding the brokerage fee and HKSE transaction levy); and

(ii) the options are vested and exercisable after 2 years from the grant date and expire 10 years from the date of grant.

No further option can be granted under the Pre-Global Offering Option Scheme.

28. SHARE OPTION SCHEME (continued)

The Pre-Global Offering Option Scheme had been amended in conjunction with the amended terms of the Share Option Scheme on 13 May 2002. Apart from the above two terms, the principal terms are the same as the amended Share Option Scheme in all material aspects.

(b) On 1 June 2000, the Company adopted the Share Option Scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares (including those that could be subscribed for under the pre-global offering share option scheme as described above) equal to 10% of the total issued share capital of the Company. According to the Share Option Scheme, the nominal consideration payable by a participant for the grant of options will be HK$1.00. The exercise price payable by a participant upon the exercise of an option will be determined by the directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80% of the average of the closing prices of shares on the HKSE on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the HKSE.

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

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

(ii) The options are vested on the date of grant and exercisable from the date of grant to 22 June 2010.

The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the New Chapter 17 of the Listing Rules which came into effect on 1 September 2001 with the following major amendments:

(i) share options may be granted to employees including executive directors of the Group or any of the non-executive directors;

(ii) the option period commences on a day after the date on which an option is offered but not later than 10 years from the offer date; and

(All amounts in RMB thousands unless otherwise stated)

28. SHARE OPTION SCHEME (continued)

(iii) minimum subscription price shall not be less than the higher of:

- the nominal value of the shares;
- the closing price of the shares of the Stock Exchange as stated in the Stock Exchange's quotation sheets on the offer date in respect of the options; and
- the average closing price of the shares on the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date.

(c) According to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 10 July 2002, a total of 36,028,000 share options were granted to eligible individuals including directors, independent non-executive directors, and the non-executive directors of the Company under the amended Share Option Scheme in the following terms:

(i) aggregate of 2,802,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price is HK$6.18; and

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

Vesting dates	Exercisable periods	Portions
10 July 2003	10 July 2003 to 9 July 2008	40%
10 July 2004	10 July 2004 to 9 July 2008	30%
10 July 2005	10 July 2005 to 9 July 2008	30%

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

(i) an aggregate of 2,772,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise prices per share option are HK$4.30 and HK$4.66 respectively; and

28. SHARE OPTION SCHEME (continued)

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

Vesting dates	Exercisable periods	Portions
21 May 2004	21 May 2004 to 20 May 2009	40%
21 May 2005	21 May 2005 to 20 May 2009	30%
21 May 2006	21 May 2006 to 20 May 2009	30%

(e) According to resolution passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 20 July 2004, a total of 112,668,000 share options were granted to eligible individuals (including directors, independent non-executive directors, non-executive directors, middle to senior management of the Group) respectively, under the amended Share Option Scheme in the following terms:

(i) an aggregate of 3,366,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;

(ii) the exercise price per share option is HK$5.92; and

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

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

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

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

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

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

All of the options granted are governed by the amended terms of the Share Option Scheme and Pre-Global Offering Share Option Scheme as mentioned above.

(All amounts in RMB thousands unless otherwise stated)

28. SHARE OPTION SCHEME (continued)

(g) Details of share options exercised during 2005 and 2004 were as follows:

For the year ended 31 December 2005

Grant date	Exercise price HK$	Weighted average closing price per share at respective days immediately before the exercises of options HK$	Proceeds received HK$	Number of shares involved
2 August 2002	6.18	7.69	5,821,560	942,000
21 May 2003	4.30	7.76	37,793,560	8,789,200
30 May 2003	4.66	7.80	716,870	154,000
20 July 2004	5.92	6.90	5,256,960	888,000
			49,588,950	10,773,200

For the year ended 31 December 2004

Grant date	Exercise price HK$	Weighted average closing price per share at respective days immediately before the exercises of options HK$	Proceeds received HK$	Number of shares involved
2 August 2002	6.18	9.42	52,604,160	8,512,000
21 May 2003	4.30	6.09	7,774,400	1,808,000
			60,378,560	10,320,000

Upon the adoption of HKFRS 2, the Group changed its accounting policy for share-based payment. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. The cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statements of the respective periods. The Group recognised share-based employee compensation costs based on the estimated fair value of share options at the grant date by using the Black-Scholes valuation model. No share options were granted during 2005. The fair value of options granted during the year ended 31 December 2004 was HK$1.54 . The significant inputs into the model were share prices of HK$5.90 and HK$6.20, at the grant dates, exercise prices shown above, volatility of 40%, expected life of options of 3 years, expected dividend pay out rate of 2% and annual risk-free interest rate of 3%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 100 days (Note 2.2(b)).

29. EARNINGS PER SHARE

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

Basic earnings per share for the years ended 31 December 2005 and 2004 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years.

Diluted earnings per share for the years ended 31 December 2005 and 2004 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the years, after adjusting for the effects of the potential dilutive ordinary shares. All potential dilutive ordinary shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme; and (ii) the amended Share Option Scheme. For 2005 and 2004, all potential dilutive shares arose from share options granted in 2002, 2003 and 2004 under the amended Share Option Scheme (see details in Note 28), which if converted to ordinary shares would decrease profit attributable to the shareholders per share.

	2005			2004 (Restated)		
	Profit attributable to shareholders	Shares in thousands	Per share amount RMB	Profit attributable to shareholders	Shares in thousands	Per share amount RMB
Basic earnings	4,931,052	12,570,398	0.392	4,493,451	12,561,242	0.358
Effect of conversion of share options	—	37,078	—	—	31,812	—
Diluted earnings	4,931,052	12,607,476	0.391	4,493,451	12,593,054	0.357

Basic and diluted earnings per ADS have been computed by multiplying the earnings per share by 10, which is the number of shares represented by each ADS.

30. DIVIDENDS

At the annual general meeting held on 12 May 2005, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2004 approximately totaling RMB1,256,924,000 which has been reflected as an appropriation of retained profits for 2005. As at 31 December 2005, such dividends have been fully paid by the Company.

At a meeting held on 23 March 2006, the Board of Directors of the Company proposed the payment of final dividend of RMB0.11 per ordinary share to the shareholders for the year ended 31 December 2005 totaling approximately RMB1,383,169,000. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2005, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 31 December 2006.

(All amounts in RMB thousands unless otherwise stated)

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets of the Group include bank balances and cash, short-term bank deposits, accounts receivable, prepayment and other current assets, amounts due from related parties and Domestic Carriers. Financial liabilities of the Group include accounts payable and accrued liabilities, bank loans, lease payables and amounts due to related parties.

Bank balances and cash and short-term bank deposits denominated in foreign currencies, as summarized below, have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2005.

	The Group					
	2005			2004		
	Original currency '000	Exchange rate	RMB equivalent '000	Original currency '000	Exchange rate	RMB equivalent '000
Bank balances and cash:						
– denominated in HK dollars	45,791	1.04	47,636	75,562	1.06	80,406
– denominated in US dollars	83,023	8.07	670,010	4,803	8.28	39,753
– denominated in MOP	92	1.01	93	—	—	—
– denominated in EUR	87	9.90	861	—	—	—
Sub-total			718,600			120,159
Short-term deposits:						
– denominated in US dollars	35,000	8.07	282,457	79,946	8.28	661,675
Sub-total			282,457			661,675
Total			1,001,057			781,834

The Group did not have and does not believe it will have any difficulty in exchanging its foreign currency cash into RMB at the exchange rates quoted by the People's Bank of China. The carrying amounts of the Group's bank balances and cash, short-term bank deposits, other current financial assets and liabilities approximated their fair values as at 31 December 2005 due to the nature or short maturity of those instruments.

The carrying amounts of receivables and payables which are all subject to normal trade credit terms approximate their fair values.

The carrying amounts of long-term bank loans approximate their fair values based on prevailing market borrowing rates available for comparable bank loans with similar terms and maturities.

32. RELATED PARTY TRANSACTIONS

Unicom Group is a state-owned enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-owned enterprises and their subsidiaries, in addition to Unicom Group, directly or indirectly controlled by the PRC government are also considered to be related parties of the Group. Neither Unicom Group nor the PRC government publishes financial statements available for public use.

The Group is ultimately controlled by the PRC government, which also controls a significant portion of the productive assets and entities in the PRC. The Group provides telecommunications services as part of its retail transactions, thus, is likely to have extensive transactions with the employees of state controlled entities, including their key management personnel and their close family members. These transactions are carried out on commercial terms that are consistently applied to all customers. Management considered state-owned enterprises that had material transactions with the Group included other telecommunication service operators, equipment vendors, construction vendors, services providers and state-owned banks in the PRC. Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

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"). These entities are collectively referred to as "Domestic Carriers".

(All amounts in RMB thousands unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries

The table set forth below summarizes the names of significant related parties (excluding other state-owned enterprises which are summarized in Note 32.3) and nature of relationship with the Company as at 31 December 2005:

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
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 ("New Guoxin" originally known as "Guoxin Paging", which changed to its present name on 29 April 2004)	A subsidiary of Unicom Group
UNISK (Beijing) Information Technology Corporation Limited ("UNISK")	A joint venture company of Unicom Group
China Unicom Corporation Limited ("CUCL")	A subsidiary of the Company
Unicom New Century Telecommunications Corporation Limited ("Unicom New Century", on 30 July 2004, CUCL combined with Unicom New Century and Unicom New Century was legally dissolved.)	A subsidiary of the Company
Unicom New World Telecommunications Corporation Limited ("Unicom New World", on 1 September 2005, CUCL combined with Unicom New World and Unicom New World was legally dissolved.)	A subsidiary of the Company
China Unicom International Limited ("Unicom International")	A subsidiary of the Company
China Unicom USA Corporation ("Unicom USA")	A subsidiary of Unicom International
China Unicom (Macau) Company Limited ("Unicom Macau")	A subsidiary of the Company
Unicom Huasheng Telecommunications Technology Company Limited ("Unicom Huasheng")	A subsidiary of CUCL

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (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 in the ordinary course of business.

Transactions with Unicom Group and its subsidiaries:	Note	2005	2004
Interconnection and roaming revenues	(i), (iii)	207,526	220,174
Interconnection and roaming charges	(ii), (iii)	57,902	63,891
Charge for cellular subscriber value-added service by New Guoxin	(iv), (v)	412,549	858,778
Charge for customer services	(vi)	562,003	524,718
Charge for cellular subscriber value-added service by UNISK and Unicom NewSpace	(vii)	28,418	4,228
Rental charges for premises, equipment and facilities	(viii)	21,059	25,528
Rental income for premises and facilities	(ix)	18,662	19,475
Constructed capacity related cost of CDMA network	(iv), (xii)	176,130	305,903
Revenue for leasing of transmission line capacity	(x)	25,841	38,853
Charges for international gateway services	(xiii)	19,797	17,062
Leasing of satellite transmission capacity	(xiv)	11,794	14,152
CDMA network capacity lease rental	(iv), (xi)	7,924,644	6,588,926
Purchase of CDMA handsets	(xv)	—	14,655
Purchase of telecom cards	(xvi)	671,715	1,087,498
Commission expenses for sales agency services incurred for telecom cards	(xvii)	—	16,023
Commission fees to New Guoxin	(xviii)	15,312	9,054
Agency fee incurred for procurement of telecommunications equipment	(xix)	15,791	17,759

(All amounts in RMB thousands unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

(i) Interconnection revenues represent the amounts received or receivable from Unicom Group for calls from its networks to the Group's networks. Roaming revenues represent revenue for calls made using the Group's networks by Unicom Group's subscribers.

(ii) Interconnection charges are for calls made from the Group's networks to Unicom Group's networks. Roaming expenses represent expenses for calls made by the Group's subscribers using Unicom Group's networks.

(iii) Interconnection settlement between Unicom Group's network and the Group's network is based on standards established from time to time by the MII.In the case of calls between cellular subscribers in different provinces, settlement is based on either the standards established by the MII or an internal settlement arrangement applied by Unicom Group based on their respective internal costs of providing this service. Also, charges for roaming services between the Group and Unicom Group are based on the respective internal costs of providing these services.

(iv) On 24 March 2005, CUCL and Unicom New World (which ceased to be legal entities, with operations succeeded by CUCL) entered into the new agreements, "New Comprehensive Service Agreement", "New CDMA Lease", "New Comprehensive Operator Services Agreement" and "New Guoxin Premises Leasing Agreement", with Unicom Group, Unicom New Horizon and New Guoxin to replace the old agreements. The new agreements became effective from 1 January 2005 after being approved at the extraordinary shareholders' meeting on 12 May 2005. Details of the new agreements have already been set forth in the shareholders' circular "Continuing Connected Transactions" of the Company issued on 18 April 2005.

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

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

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

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

(viii) CUCL and Unicom New World (which ceased to be legal entities, with operations succeeded by CUCL) respectively signed service agreements with Unicom Group to mutually lease premises, equipment and facilities from each other. Rentals are based on the lower of depreciation costs and market rates.

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

(x) Unicom Group leases transmission line capacity from the Group in accordance with the relevant provision of the services agreement. Revenue for leases of transmission line capacity is based on tariffs stipulated by MII from time to time less a discount of up to 10%.

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

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

(xi) According to New CDMA Lease Agreements entered among CUCL, Unicom New World (which has been merged into and succeeded by CUCL in September 2005), Unicom Group and Unicom New Horizon, Unicom New Horizon agreed to lease the capacity of CDMA network to CUCL and Unicom New World. Details please see Note 4.2(b)(ii).

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

(xiii) Charges for international gateway services represent the amounts paid or payable to Unicom Group for international gateway services provided for the Group's international long distance networks. The charge for this service is based on the cost of operation and maintenance of the international gateway facilities incurred by Unicom Group, including depreciation, together with a margin of 10% over cost.

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

(xiv) Satellite transmission capacity leasing fees represent the amounts paid or payable to Unicom NewSpace for the use of satellite transmission capacity. The charges are based on the MII regulations then in effect less the applicable discount up to 10% as agreed with Unicom NewSpace.

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

(xv) In 2004, according to the purchase of CDMA handset agreement entered into between Unicom NewSpace and certain subsidiaries of the Group, the Group agreed to purchase CDMA handsets from Unicom NewSpace.

(xvi) The Group signed a service agreement with Unicom Group to purchase telephone cards from Unicom Group (to be imported by Unicom Xingye) at cost plus a margin to be agreed from time to time, but not to exceed 20%, and subject to appropriate volume discounts.

(xvii) Unicom International provided sales agency services such as selling of telecommunications cards, leased lines and transfer calls to the Group.

Prior to September 2004, the Group's transactions with Unicom International (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 period before its acquisition by the Group in 2004. Subsequent to its acquisition, such transactions became inter-group transactions and have been eliminated in the Group's consolidated financial statements starting from September 2004.

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

(All amounts in RMB thousands unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

(xix) The Group signed a service agreement with Unicom I/E Co., in which Unicom I/E Co. agreed to provide equipment procurement services to the Group. Unicom I/E Co. charges the Group 0.7% of the value of imported equipment and 0.5% of the value of domestic equipment for such services.

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

(xx) Unicom Group is the registered proprietor of the "Unicom" trademark in English and the trademark bearing the "Unicom" logo, which are registered at the PRC State Trademark Bureau. Pursuant to an exclusive PRC trademark license agreement entered into between Unicom Group and CUCL, CUCL and its affiliates are granted the right to use these trademarks on a royalty free basis for an initial period of 5 years, renewable at CUCL's option.

As part of the acquisition arrangements of Unicom New Century and Unicom New World, Unicom New Century and Unicom New World entered into PRC trademark license agreement with Unicom Group respectively. Unicom New Century and Unicom New World (which has been merged into and succeeded by CUCL) are granted the right to use these trademarks on a royalty free basis for an initial period of 10 years, renewable for another 10 years at CUCL's is options.

(b) Amounts due from and to Related Parties/Unicom Group

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

32. RELATED PARTY TRANSACTIONS (continued)

32.1 Unicom Group and its subsidiaries (continued)

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

	The Group	
	2005	2004
Due (from)/to Unicom Group, beginning of year	(61,401)	432,047
Interconnection and roaming revenues	(207,526)	(220,174)
Interconnection and roaming charges	57,902	63,891
Revenue for leasing of transmission line capacity, premises and facilities	(25,841)	(38,853)
Rental charges for premises, equipment and facilities	21,059	25,528
Charges for the international gateway services	19,797	17,062
Leasing of satellite transmission capacity	11,794	7,076
Proceeds received/receivable from sale of New Guoxin	—	450,000
Net receipt /(settlement) during the year	222,310	(797,978)
Due to/(from) Unicom Group, end of year	38,094	(61,401)

(d) Bank Loans guaranteed by Unicom Group

As of 31 December 2005, there were no long-term bank loans (2004: RMB6,779 million) and short-term bank loans (2004: RMB3,397 million) guaranteed by Unicom Group.

32.2 Domestic Carriers

(a) Transactions with Domestic Carriers

The following is a summary of significant transactions with Domestic Carriers in the ordinary course of business:

	Note	2005	2004
Interconnection revenue	(i)	3,964,977	2,889,497
Interconnection charges	(i)	7,886,395	7,003,262
Leased line revenue	(ii)	62,865	247,676
Leased line charges	(ii)	548,481	628,173

(All amounts in RMB thousands unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (continued)

32.2 Domestic Carriers (continued)

(a) Transactions with Domestic Carriers (continued)

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 lines. At the same time, the Group leases transmission lines to Domestic Carriers in return for 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 or Domestic Carriers.

(b) Amounts due from and to Domestic Carriers

	The Group	
	2005	2004
Amounts due from Domestic Carriers		
– Receivables for interconnection revenue and leased line revenue	139,099	270,068
– Less: Provision for doubtful debts	(614)	(149)
	138,485	269,919
Amounts due to Domestic Carriers		
– Payables for interconnection charges and leased lines charges	822,006	948,574

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

32. RELATED PARTY TRANSACTIONS (continued)

32.3 Other major state-owned enterprises

(a) Transactions with other major state-owned enterprises

The following is a summary of significant transactions with other major state-owned enterprises in the ordinary course of business:

	The Group	
	2005	2004
Purchase of CDMA handsets	1,795,009	1,818,500
Construction and installation fee	290,170	707,829
Purchase of equipment	3,588,153	5,757,356
Line leasing revenue	153,837	179,450
Finance income/costs, include:		
Interest income	96,196	102,907
Interest expense of loans	1,587,260	1,994,986
Short-term bank loans received	11,946,716	10,151,971
Long-term bank loans received	5,772,746	6,893,990
Short-term bank loans repayments paid	14,363,131	12,271,753
Long-term bank loans repayments paid	25,869,531	17,245,367

(All amounts in RMB thousands unless otherwise stated)

32. RELATED PARTY TRANSACTIONS (continued)

32.3 Other major state-owned enterprises (continued)

(b) Amounts due from and to other major state-owned enterprises

The balances with other major state-owned enterprises included in various line items of the consolidated balance sheet are listed as follows:

	The Group	
	2005	2004
Current assets		
Prepayment and other current assets	160,681	764,793
Short-term bank deposits	282,457	371,994
Bank balances and cash	5,191,067	4,417,047
Non-current liabilities		
Long-term bank loans	7,946,418	22,102,088
Current liabilities		
Payables and accrued liabilities	341,446	327,374
Short-term bank loans	6,431,208	8,847,623
Current portion of long-term bank loans	5,145,190	11,086,305

33. CONTINGENCIES AND COMMITMENTS

33.1 Capital Commitments

As at 31 December 2005 and 2004, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	The Group			
	2005			2004
	Land and buildings	Equipment	Total	Total
Authorised and contracted for	830,099	3,049,567	3,879,666	5,047,140
Authorised but not contracted for	129,591	199,667	329,258	1,490,325
Total	959,690	3,249,234	4,208,924	6,537,465

As at 31 December 2005, approximately RMB218 million (2004: RMB126 million) of capital commitment outstanding was denominated in US dollars, equivalent to US$27 million (2004: US$15 million).

33.2 Operating Lease Commitments

As at 31 December 2005 and 2004, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

	The Group				
	2005				2004
	Land and buildings	Equipment	CDMA network capacities (Note (a))	Total	Total
Leases expiring:					
– not later than one year	659,427	81,801	7,132,179	7,873,407	6,681,058
– later than one year and not later than five years	1,891,344	99,335	—	1,990,679	1,914,197
– later than five years	1,152,581	15,525	—	1,168,106	1,067,703
Total	3,703,352	196,661	7,132,179	11,032,192	9,662,958

Note (a): In relation to the above CDMA network capacities commitment, it is estimated based on 90% of the total amount of lease fee paid by the Group to Unicom New Horizon in 2005 pursuant to the New CDMA Lease (see Note 4.2(b) for details). The New CDMA Lease has been approved by the minority shareholders of the Company in 2005.

(All amounts in RMB thousands unless otherwise stated)

33. CONTINGENCIES AND COMMITMENTS (continued)

33.2 Operating Lease Commitments (continued)

As at 31 December 2005 and 2004, the Company had total future aggregate minimum operating lease payments under operating leases as follows:

	The Company	
	2005	2004
	Office premises	
Leases expiring:		
– not later than one year	2,853	5,002
– later than one year and not later than five years	—	4,028
Total	2,853	9,030

33.3 Commitment to purchase CDMA Handsets

As at 31 December 2005, the Group committed to purchase CDMA handsets amounting to approximately RMB1,232 million (2004: RMB1,968 million).

34. EVENTS AFTER BALANCE SHEET

34.1 Approval of new share option scheme

Pursuant to a resolution passed by the board of directors, independent non-executive directors and non-executive directors of the Company dated 15 February 2006. A total of 167,466,000 share options were granted to eligible individuals (including directors and middle to senior management of the Group), under the amended share option scheme on the following terms:

(i) an aggregate of 2,840,000 options were granted to the executive directors of the Company;

(ii) the exercise price per share option is HK$6.35;

(iii) The entitlement of the above eligible individuals to the exercise of share options granted is subject to the Group's performance or their own performance in 2006.

34. EVENTS AFTER BALANCE SHEET (continued)

34.1 Approval of new share option scheme (continued)

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

Vesting dates	Exercisable periods	Portions
15 February 2008	15 February 2008 to 14 February 2012	50%
15 February 2009	15 February 2009 to 14 February 2012	50%

34.2 Proposed final dividend

After the balance sheet date the directors proposed a final dividend. For detail, see Note 30.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated in accordance with disclosure requirements under new HKFRS adopted in current year.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March 2006.