

Supplemental Financial Information for North American Shareholders

(All amounts in RMB thousands unless otherwise stated)

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

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

Under HKFRS, the Group has adopted the purchase method of accounting to account for the acquisitions of Unicom New Century, Unicom New World and Unicom International (the "Acquisitions"). Under the purchase method, the operating results of these acquired subsidiaries have been included in the consolidated statements of income of the Group after the Acquisitions were effective. The differences between the costs of Acquisitions and the fair values of the separately identifiable net assets acquired have been recorded as goodwill/negative goodwill. Under HKFRS 3 "Business Combinations", goodwill is no longer amortised but is instead subject to impairment test on an annual basis or when there are indications of impairment. This policy is applied prospectively from 1 January 2005. Upon the adoption of HKFRS 3, negative goodwill has been derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings of the Group.

As the Group, Unicom New Century, Unicom New World and Unicom International were under the common control of Unicom Group prior to the Acquisitions, these Acquisitions are considered as a transfer of businesses under common control and the acquired assets and liabilities are accounted for at historical cost under US GAAP. Furthermore, the consolidated financial statements prepared under US GAAP for all periods presented have been retroactively restated as if Unicom New Century, Unicom New World and Unicom International were always part of the Group. The cash considerations paid by the Company are treated as capital distribution in the respective years of the Acquisitions. Goodwill/negative goodwill arising from the Acquisitions and the related amortisation of goodwill/negative goodwill in prior periods has been reversed under US GAAP. Transaction costs, which are capitalised as part of the cost of investment under HKFRS, have been expensed in full under US GAAP. Upfront non-refundable revenue and direct incremental costs occurring prior to the Acquisitions were not recognised as assets and liabilities under the purchase method of accounting in the financial statements prepared under HKFRS, whereas as a transfer of business under common control under US GAAP, such assets and liabilities have been recognised as if the subsidiaries had always been part of the Group.

(B) Consolidation of variable interest entities

Under HKFRS, consolidation of business enterprises is based on voting control. In addition, special purpose entities ("SPE") are consolidated where the substance of the relationship indicates that an entity controls the SPE. Indicators of control mainly arise where: (i) the SPE conducts its activities on behalf of the entity; (ii) the entity has the decision-making power to obtain the majority of the benefits of the SPE; (iii) the entity has other rights to obtain the majority of the benefits of the SPE; or (iv) the entity has the majority of the residual or ownership risks of the SPE or its assets.

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

(C) Employee housing schemes

Prior to the establishment of CUCL, Unicom Group provided housing benefits to qualified employees of the Group to enable them to purchase living quarters at a discount. Under HKFRS, housing benefits incurred and borne by Unicom Group for these employees were not recognised by the Group. Under US GAAP, the amount of such housing benefits is being recognised as part of the Group's operating expenses over the estimated average service life of the participating employees. The corresponding credits are being accounted for as capital contributions.

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(D) Deferred taxation

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

(E) Revaluation of property, plant and equipment

Under HKFRS, revaluation surplus in relation to buildings is recorded by the Group as part of the property, plant and equipment. Thereafter, depreciation is provided based on the revalued amounts.

Under US GAAP, all property, plant and equipment are stated at historical cost less accumulated depreciation.

(F) Share option scheme

Under HKFRS, the fair value of the employee services received in exchange for share 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. 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. Upon the adoption of HKFRS 2 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 statements of the respective periods. Refer to note (2.2(b)) and note (28) for details of share option schemes adopted by the Company.

(F) Share option scheme (continued)

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

	2005	2004
Profit for the year under US GAAP:		
As reported	5,012,812	4,712,687
Less: Total stock-based employee compensation expense determined under fair value based method	(108,950)	(146,541)
Pro forma	4,903,862	4,566,146
Basic earnings per share:		
As reported (RMB)	0.399	0.375
Pro forma (RMB)	0.390	0.364
Diluted earnings per share:		
As reported (RMB)	0.397	0.374
Pro forma (RMB)	0.389	0.362
Basic earnings per ADS:		
As reported (RMB)	3.988	3.752
Pro forma (RMB)	3.901	3.635
Diluted earnings per ADS:		
As reported (RMB)	3.972	3.738
Pro forma (RMB)	3.890	3.622

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(G) Capacity transaction

Under HKFRS, sales of indefeasible right-of-use (“IRU”) are recognised at the time of delivery and acceptance where the following conditions are met: (i) the purchaser’s right of use is exclusive and irrevocable; (ii) the asset is specific and separable; (iii) the term of the contract is for the major part of the asset’s useful economic life; (iv) the attributable cost of carrying value can be measured reliably; and (v) no significant risks are retained by the Group.

Under US GAAP, sales of IRUs are evaluated under the guidance in FASB Interpretations No. 43 Real Estates Sales as the lease asset is considered as a real estate. The title of the leased assets must be transferred to the lessee in order to be classified and accounted for as a sales-type lease such that the sale can be recognised. Accordingly, such sales of IRUs are not recognised under US GAAP as the title to the asset is not transferred.

(H) New Accounting Pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123(R) “Share-Based Payment” (“SFAS 123(R)”), which is a revision of SFAS 123 and supersedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Under SFAS 123(R), the pro forma disclosures of the statement of income effects of share-based payments are no longer an alternative. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 regarding the SEC’s interpretation of SFAS 123(R) and the valuation of share-based payment for public companies. SFAS 123(R) is effective for all stock-based awards granted on or after 15 June 2005. In addition, companies must also recognise compensation expense related to any awards that are not fully vested as of 15 June 2005. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS 123 and will be amortised over the remaining vesting period.

The Group will adopt SFAS123(R) and related FASB Staff Position on 1 January 2006. The Group is currently assessing the impact of adopting SFAS123(R) to its consolidated operating results and financial position.

Differences between HKFRS and US GAAP which affect profit for the year of the Group are summarised below:

	Note	2005	2004
Profit for the year under HKFRS (Restated)	(1)	4,931,052	4,493,451
Impact of US GAAP adjustments:	(2)		
– Reversal of goodwill amortisation of Unicom New Century	(A)	—	114,237
– Recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	(28,761)	(28,761)
Reversal of goodwill amortisation of Unicom New World	(A)	—	57,247
– Recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New World	(A)	(20,740)	(20,740)
– Effect of acquisition of Unicom International	(A)	—	6,106
– Transaction costs for the acquisition of Unicom International	(A)	—	(325)
– Recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom International	(A)	1,448	61
– Upfront non-refundable revenue and direct incremental costs not recognised under purchase method of accounting under HKFRS	(A)	21,001	19,807
– Employee housing benefits	(C)	(14,942)	(14,942)
– Reversal of depreciation for revalued property, plant and equipment	(E)	4,127	4,127
– Reversal of employee compensation costs for share option scheme under HKFRS	(F)	108,417	88,957
– Profit on sale of indefeasible right-of-use	(G)	(3,747)	—
– Deferred tax effects of US GAAP adjustments	(D)	14,957	(6,538)
Profit for the year under US GAAP	(2)	5,012,812	4,712,687

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

		The Group	
	Note	2005	2004
Shareholders' equity under HKFRS (Restated)	(1)	76,284,345	72,449,666
Impact of US GAAP adjustments:	(2)		
– Effect of acquisition of Unicom New Century	(A)	(2,052,554)	(2,052,554)
– Transaction costs for the acquisition of Unicom New Century	(A)	(109,221)	(109,221)
– Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New Century	(A)	145,509	174,270
– Effect of acquisition of Unicom New World	(A)	(946,370)	(946,370)
– Transaction costs for the acquisition of Unicom New World	(A)	(49,378)	(49,378)
– Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom New World	(A)	15,767	36,507
– Effect of acquisition of Unicom International	(A)	392	392
– Transaction costs for the acquisition of Unicom International	(A)	(325)	(325)
– Reversal of goodwill amortisation and recognition of depreciation expenses based on historical cost of property, plant and equipment of Unicom International	(A)	(5,977)	(7,425)
– Upfront non-refundable revenue and direct incremental costs not recognised under purchase method of accounting under HKFRS	(A)	69,775	48,774
– Reversal of revaluation surplus of property, plant and equipment:			
– Cost	(E)	(82,531)	(82,531)
– Accumulated depreciation	(E)	23,605	19,478
– Profit difference on sale of indefeasible right-of-use	(G)	(3,747)	—
– Deferred tax effects of US GAAP adjustments	(D)	(24,004)	(38,961)
Shareholders' equity under US GAAP	(2)	73,265,286	69,442,322

Notes:

- (1) The adoption of new/revised HKFRS in 2005 represents a change in certain accounting policies which have been applied retrospectively so that the comparatives presented have been restated to conform to the changed policies. Detailed information is set forth in Note 2.2 of these financial statements.
- (2) In accordance with the US GAAP accounting as described in Note (A) above, the financial statements under US GAAP for prior periods presented have been retroactively restated to include Unicom New Century, Unicom New World and Unicom International since the beginning of the earliest period presented.