Supplemental Financial Information for North American Shareholders

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

(A) EFFECT OF THE ACQUISITION OF ENTITIES UNDER COMMON CONTROL

Under HK GAAP, the Group adopted the purchase method to account for the acquisition of the entire equity interest in Unicom New Century on 31 December 2002. Under the purchase method, the acquired results of operations are incorporated into the consolidated income statements of the Group from the date of Acquisition. The differences between the cost of the acquisition and the fair value of the identifiable assets and liabilities acquired is recognised as goodwill and is amortised on a straight-line basis over its useful life of 20 years.

As the Group and Unicom New Century were under the common control of Unicom Group prior to the Acquisition, the acquisition is 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 were always part of the Group. The net cash consideration paid by the Company is treated as capital distribution in the year of the Acquisition for US GAAP purpose. Expenses of the transaction, which are capitalised as part of the acquisition price under HK GAAP, have been expensed in full under US GAAP.

(B) REVENUE AND COSTS RECOGNITION

Under HK GAAP, upfront non-refundable revenue, such as connection fee, is recognised when received upon completion of activation services. Under US GAAP, in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", upfront non-refundable revenue and the related direct incremental costs incurred are deferred and recognised over the estimated customer service periods. The expected customer service period for the Cellular Business is estimated based on the expected stabilised churn rates. On this basis, the weighted average customer service period based on current estimation considering the prevailing market environment is approximately 6 years (2001: 6 years). The effect of the change of estimate in 2001 was to increase the net income by approximately RMB26 million for the year ended 31 December 2001.

(C) EMPLOYEE HOUSING SCHEMES

Prior to the establishment of Guoxin and China Unicom, both China Telecom (the previous owner of Guoxin prior to its restructuring into the Group) and Unicom Group provided housing benefits to qualified employees of the Group to enable them to purchase living quarters. Under HK GAAP, housing benefits incurred and borne by China Telecom and Unicom Group for these employees were not recognised by the Group. Under US GAAP, the amount of such housing benefits is being recognised as part of the Group's operating expenses over the estimated average service life of the participating employees. The corresponding credits are being accounted for as capital contributions.

(D) DEFERRED TAXATION

Under HK GAAP, the Group provides for deferred tax liabilities only to the extent that there is a reasonable probability that such deferred taxes will become payable in the foreseeable future. Deferred tax assets are not recognised unless they are expected to crystallise in the foreseeable future. Under US GAAP, a provision is made for all deferred taxes. If it is more likely than not that deferred tax assets will not be realised, a valuation allowance is recorded.

(E) REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

(F) IMPAIRMENT OF LONG-LIVED ASSETS AND GOODWILL

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

(i) Goodwill

Under HK GAAP, goodwill is amortised over the expected economic lives of the acquired businesses which are generally 5 to 20 years. Prior to 1 January 2002, the US GAAP treatment was consistent with this. In addition, for the year ended 31 December 2001, although the projected amount of future undiscounted cash flows was sufficient to recover the net carrying amount of goodwill as of 31 December 2001, the amount of discounted cash flows was not. Consequently, for the year ended 31 December 2001, impairment provision for goodwill recognised under US GAAP were lower than that recognised under HK GAAP by RMB62,948,000.

On 1 January 2002, under US GAAP, upon the adoption of Statements of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), the Group no longer amortises goodwill but, rather, assesses the goodwill of each identified reporting unit for impairment annually. The adoption of SFAS 142 has resulted in a cumulative effect of accounting change of RMB 42,175,000 (net of tax RMB 20,773,000) on 1 January 2002 and has been reflected in the condensed consolidated income statement for the year ended 31 December 2002 under US GAAP. The subsequent annual impairment assessment of goodwill as of 31 December 2002 did not result in any material difference in the fair values for the year ended 31 December 2002. Prior to 1 January 2002, impairment accounting of goodwill under US GAAP was prescribed by SFAS 121.

The pro-forma impact to the reported net profits and earnings per share before and after cumulative effect of change in accounting policy for the year of initial application and the prior year are provided as follows:

	2002	2001
Net profit after cumulative effect of change in accounting policy:		
As reported (RMB'000)	5,147,294	5,074,321
Add back: Goodwill amortisation, net of tax impact	—	49,755
Adjusted (RMB'000)	5,147,294	5,124,076
Net profit before cumulative effect of change in accounting policy:		
As reported (RMB'000)	5,189,469	5,074,321
Add back: Goodwill amortisation, net of tax impact	—	49,755
Adjusted (RMB'000)	5,189,469	5,124,076
Basic and diluted earnings per share after cumulative effect of change in accounting policy:		
As reported (RMB)	0.41	0.40
Pro forma (RMB)	0.41	0.41
Basic and diluted earnings per share before cumulative effect of change in accounting policy:		
As reported (RMB)	0.41	0.40
Pro forma (RMB)	0.41	0.41
Basic and diluted earnings per ADS after cumulative effect of change in accounting policy:		
As reported (RMB)	4.10	4.04
Pro forma (RMB)	4.10	4.08
Basic and diluted earnings per ADS before cumulative effect of change in accounting policy:		
As reported (RMB)	4.13	4.04
Pro forma (RMB)	4.13	4.08

(ii) Long-lived assets

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

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

Based on the above assessment performed and taking into account the adoption of SFAS 144, no material differences arose in respect of the timing and the amount of impairment for equipment for the year ended 31 December 2002. For the year ended 31 December 2001, although the projected amount of future undiscounted net cash flows was sufficient to recover the net carrying amount of long-lived assets as of 31 December 2001, the amount of future discounted net cash flows was not. Consequently, for the year ended 31 December 2001, the impairment provision for equipment recognised under US GAAP were lower than that recognised under HK GAAP by RMB12,382,000.

(G) SHARE OPTION SCHEME

Under HK GAAP, the proceeds received from the exercise of the share options granted under the fixed award amended Share Option Scheme and Pre-Global Offering Share Option Scheme are to be recognised as an increase to capital upon the exercise of the share options as stated in Note 30 of the financial statements.

(G) SHARE OPTION SCHEME (continued)

Under US GAAP, the Company applies Accounting Principles Board Opinion No. 25 (“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 exercise price of the options granted did not exceed the market price of the underlying stock on the date of grant, no compensation cost for options has been recognised in the reconciliation of income to US GAAP. In accordance with SFAS 123, as further amended by Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure” which is effective for the year ended 31 December 2002, the required information to be disclosed is set forth below:

	2002	2001
Net profit after cumulative effect of change in accounting policy:		
As reported (RMB’000)	5,147,294	5,074,321
Less: Total stock-based employee compensation expenses determined under fair value based method	(90,288)	(153,479)
Pro forma (RMB’000)	5,057,006	4,920,842
Basic and diluted earnings per share after cumulative effect of change in accounting policy:		
As reported (RMB)	0.41	0.40
Pro forma (RMB)	0.40	0.39
Basic and diluted earnings per ADS after cumulative effect of change in accounting policy:		
As reported (RMB)	4.10	4.04
Pro forma (RMB)	4.03	3.92

(H) INVESTMENT IN EQUITY SECURITIES

Under HK GAAP, negotiable equity securities including ownership interest in an enterprise, which are intended to be held on a continuing basis, are classified as investment securities and are stated at cost. The carrying amounts of investment securities are written down to reflect any diminution in value expected to be other than temporary. Provisions against the carrying value are reversed when the circumstances and events that led to the write-downs or write-offs cease to exist and if there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Under US GAAP, equity securities which are not marketable and do not have readily determinable fair values are classified as other investments, which are stated at cost less impairment in value other than temporary. If an impairment in value is judged to be other than temporary, the cost of the investment is written down to its recoverable amount as a new cost basis and the amount of the write-down is included in the income statement. The new cost basis is not changed for subsequent recoveries in value.

During the year ended 31 December 2002, there was no recovery in the value of investments in equity securities under HK GAAP (2001: RMB12,305,000).

(I) RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, Accounting for Assets Retirement Obligations ("SFAS 143"), Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated With Exit or Disposal Activities ("SFAS 146"), FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirectly Guarantees of Indebtedness of Others ("FIN 45"), FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46") and Emerging Issues Task Force ("EITF") Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" that addresses certain aspects of a vendor's accounting for multiple revenue-generating arrangements ("EITF Issue 00-21").

(a) SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets retirement costs. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company has not completed its assessment of the effects of adopting this new pronouncement.

(b) SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The Group will adopt SFAS 146 on 1 January 2003 and does not expect a material impact upon adoption.

(c) FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognise, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions under FIN 45 are applicable prospectively to guarantees issued or modified after 31 December 2002. The adoption of disclosure requirements that are effective for the year ended 31 December 2002 did not have a material effect on the note disclosures of the consolidated financial statements of the Group.

(l) RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

(d) FIN 46 provides guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The interpretation applies immediately to variable interest entities created after 31 January 2003, and to variable interests entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year for interim period beginning after 15 June 2003 to variable interests entities in which an enterprise holds a variable interest that it acquires before 1 February 2003. The Group does not expect that the adoption of FIN 46 will have a significant impact to the consolidated financial statement.

(e) In November 2002, the Emerging Issues Task Force reached a final consensus on EITF Issue 00-21, which addresses certain aspects of a vendor's accounting for multiple revenue-generating arrangements. This Issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. Factors to consider in this assessment includes whether any of the deliverables are independently functional or sufficiently separable, and if so, whether there is any sufficient evidence of related fair values to account for them separately. Related provisions under this Issue do not change otherwise applicable revenue recognition criteria. This Issue also provides additional guidance with respect to (i) the effect of certain customer rights due to vendor nonperformance on the recognition of revenue allocated to delivered units of accounting; (ii) the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the vendor; and (iii) the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of this Issue become effective for fiscal periods beginning after June 15, 2003, with early application permitted. The Group is currently reviewing the provisions of this Issue to assess the potential impact on its results of operations and financial position.

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

	Note	2002 RMB'000	2001 RMB'000
Net profit under HK GAAP		4,566,072	4,456,761
Impact of US GAAP adjustments:	*(1)*		
- Effect of acquisition of Unicom New Century	*(A)*	648,006	351,889
- Transaction costs for the acquisition of Unicom New Century	*(A)*	(109,221)	—
- Deferral of upfront non-refundable revenue	*(B)*	(860,490)	(1,001,637)
- Amortisation of upfront non-refundable revenue	*(B)*	526,982	455,839
- Deferral of direct incremental cost	*(B)*	776,387	934,713
- Amortisation of direct incremental cost	*(B)*	(435,385)	(358,867)
- Employee housing benefits	*(C)*	(18,532)	(18,532)
- Reversal of depreciation for revalued fixed assets	*(E)*	7,485	7,485
- Differences in provision for impairment loss of equipment	*(F)*	—	12,382
- Reversal of differences in provision for impairment loss of equipment upon depreciation	*(F)*	(3,538)	—
- Differences in provision for impairment loss of goodwill	*(F)*	—	62,948
- Non-recognition of recovery of impairment provision of investment securities and associated companies	*(H)*	—	(17,948)
- Deferred tax effects of US GAAP adjustments		59,563	44,190
- Recognition of deferred tax assets in relation to provision for doubtful debts of Cellular Business	*(D)*	32,140	145,098
Cumulative effect of accounting change:			
- Transitional adjustment of goodwill impairment upon the adoption of SFAS 142 (net of tax RMB20,773,000)	*(F)*	(42,175)	—
Net profit as restated (US GAAP)	*(1)*	5,147,294	5,074,321

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

	Note	The Group 2002 RMB'000	2001 RMB'000
Shareholders' equity under HK GAAP		66,247,235	61,681,163
Impact of US GAAP adjustments:	*(1)*		
- Effect of acquisition of Unicom New Century	*(A)*	(2,052,554)	531,557
- Transaction costs for the acquisition of Unicom New Century	*(A)*	(109,221)	—
- Deferred upfront non-refundable revenue	*(B)*	(4,536,046)	(3,675,556)
- Accumulated amortisation of upfront non-refundable revenue	*(B)*	1,422,526	895,544
- Deferred direct incremental cost	*(B)*	3,619,901	2,843,514
- Accumulated amortisation of direct incremental cost	*(B)*	(1,016,882)	(581,497)
- Reversal of revaluation surplus of fixed assets:			
- Cost	*(E)*	(176,853)	(176,853)
- Accumulated depreciation	*(E)*	30,296	21,453
- Reversal of revaluation deficit of fixed assets:			
- Cost	*(E)*	28,000	28,000
- Accumulated depreciation	*(E)*	(2,716)	(1,358)
- Differences in cost and depreciation relating to provision for impairment loss of equipment	*(F)*	8,844	12,382
- Differences in provision for impairment loss of goodwill	*(F)*	62,948	62,948
- Cumulative effect of accounting change: Transitional adjustment of goodwill impairment upon the adoption of SFAS 142	*(F)*	(62,948)	—
- Non-recognition of recovery of impairment provision of investment securities and associated companies	*(H)*	(17,948)	(17,948)
- Deferred tax effects of US GAAP adjustments		(132,875)	(213,211)
- Recognition of deferred tax assets in relation to the loss carryforward from a subsidiary	*(D), (2)*	107,299	107,299
- Valuation allowance	*(D), (2)*	(107,299)	(107,299)
- Recognition of deferred tax assets in relation to provision for doubtful debts of Cellular Business	*(D)*	405,299	373,159
Shareholders' equity as restated (US GAAP)	*(1)*	63,717,006	61,783,297

Notes:

(1) Consisent with applying the accounting under US GAAP as described in Note (a) above, the consolidated financial statements under US GAAP for prior periods presented have been retroactively restated as if the current structure and operations results from the acquisition of Unicom New Century had been in existence since the beginning of the earliest period presented.

(2) A valuation allowance was recorded against the deferred tax assets in relation to the loss carried forward from a subsidiary prior to 2001 because it is highly uncertain as to whether sufficient future profit can be generated by the subsidiary to utilise the tax loss within the five-year carryforward period allowed under tax laws of the PRC at that time. The operating loss carryforward expires in various years through 2003, if not utilised. Starting from 2001, with the approval of the state tax bureau, loss incurred by this subsidiary can be set off against taxable profits of the Group.

The following summarised results of operations and the financial positions for the separate entities and on a consolidated basis as of and for the years ended 31 December 2002 and 2001, restated to reflect the impact of the effects of the acquisition of entities under common control which is accounted for at historical cost in a manner similar to pooling of interests under US GAAP and other differences between HK GAAP and US GAAP.

	The Group before acquisition of Unicom New Century RMB'000	Unicom New Century RMB'000	Elimination RMB'000	The Group after acquisition of Unicom New Century RMB'000
As of/for the year ended 31 December 2002				
Results of operations:				
Operating Revenue	40,243,016	11,560,705	(2,031,068)	49,772,653
Net profit	4,499,286	651,326	(3,318)	5,147,294
Basic earnings per share	0.36	—	—	0.41
Financial position:				
Non-current assets	93,000,469	26,152,900	—	119,153,369
Current assets	27,418,354	4,819,732	(825,599)	31,412,487
Total assets	120,418,823	30,972,632	(825,599)	150,565,856
Non-current liabilities	25,448,161	16,224,990	—	41,673,151
Current liabilities	33,434,846	11,996,877	(822,281)	44,609,442
Total liabilities	58,883,007	28,221,867	(822,281)	86,282,593
Minority interests	566,257	—	—	566,257
Net assets	60,969,559	2,750,765	(3,318)	63,717,006
As of/for the year ended 31 December 2001				
Results of operations:				
Operating Revenue	28,847,088	6,755,481	(752,780)	34,849,789
Net profit	4,722,432	351,889	—	5,074,321
Basic earnings per share	0.36	—	—	0.40
Financial position:				
Non-current assets	80,297,612	21,671,682	—	101,969,294
Current assets	49,957,870	2,938,724	(694,274)	52,202,320
Total assets	130,255,482	24,610,406	(694,274)	154,171,614
Non-current liabilities	39,257,465	16,017,811	—	55,275,276
Current liabilities	28,916,871	8,061,039	(694,274)	36,283,636
Total liabilities	68,174,336	24,078,850	(694,274)	91,558,912
Minority interests	829,405	—	—	829,405
Net assets	61,251,741	531,556	—	61,783,297

The following are condensed consolidated income statement, changes in shareholders' equity and cash flow information for the years ended 2002 and 2001, condensed consolidated balance sheet information for the Group as of 31 December 2002 and 2001, and additional financial information as of and for the years ended 31 December 2002 and 2001, restated to reflect the impact of the effects of the acquisition of entities under common control which is accounted for at historical cost with retroactive restatement under US GAAP.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	2002 RMB'000	2001 RMB'000
Revenue	*(g)*	49,772,653	34,849,789
Operating expenses:			
Leased lines and network capacities	*(g)*	(2,020,833)	(989,907)
Interconnection charges	*(g)*	(3,754,488)	(2,407,600)
Depreciation and amortisation	*(g)*	(14,226,042)	(10,164,107)
Personnel		(4,024,943)	(2,932,452)
Selling and marketing	*(g)*	(7,651,935)	(3,968,518)
General, administrative and other expenses	*(g)*	(7,196,421)	(6,418,198)
Cost of telecommunications products sold	*(g)*	(2,158,009)	(1,377,616)
Total operating expenses		(41,032,671)	(28,258,398)
Operating income		8,739,982	6,591,391
Interest income		486,755	2,114,462
Financial costs		(2,329,104)	(2,543,888)
Other expenses, net		(21,193)	(2,008)
Net profit from continuing operations before taxation		6,876,440	6,159,957
Taxation	*(c)*	(1,702,223)	(1,120,946)
Net profit from continuing operations before minority interests		5,174,217	5,039,011
Minority interests		15,252	35,310
Net profit before cumulative effect of change in accounting policy		5,189,469	5,074,321
Cumulative effect of accounting change:			
- Transitional adjustment of goodwill impairment upon the adoption of SFAS 142		(62,948)	—
- Less: related tax impact	*(c)*	20,773	—
		(42,175)	—
Net profit		5,147,294	5,074,321
Basic and diluted earnings per share after cumulative effect of change in accounting policy (RMB)		0.41	0.40
Basic and diluted earnings per ADS after cumulative effect of change in accounting policy (RMB)		4.10	4.04
Basic and diluted earnings per share before cumulative effect of change in accounting policy (RMB)		0.41	0.40
Basic and diluted earnings per ADS before cumulative effect of change in accounting policy (RMB)		4.13	4.04

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	The Group 2002 RMB'000	2001 RMB'000
Non-current assets:			
Property, plant and equipment, net	*(a)*	107,310,593	96,220,234
Goodwill		1,022	106,235
Other assets	*(b)*	10,561,980	4,296,541
Deferred tax assets	*(c)*	1,188,262	1,236,586
Investment securities		90,917	108,771
Investment in associated companies		595	927
Total non-current assets		119,153,369	101,969,294
Current assets:			
Current portion of deferred tax assets	*(c)*	502,918	760,187
Amounts due from related parties		1,137,847	1,725,516
Amounts due from domestic carriers		211,462	208,096
Prepayments and other current assets	*(d)*	2,573,764	1,148,706
Inventories		3,226,586	969,998
Account receivable		6,061,240	4,227,286
Less: Provision for doubtful debts		(1,733,972)	(1,271,974)
Accounts receivable, net		4,327,268	2,955,312
Trading securities		173,939	203,832
Short-term bank deposits		4,825,205	24,921,943
Cash and cash equivalents		14,433,498	19,308,730
Total current assets		31,412,487	52,202,320
Current liabilities:			
Dividend payable		8,448	29,847
Payables and accrued liabilities	*(e)*	19,811,961	18,241,905
Amounts due to Unicom Group		562,634	1,227,379
Amounts due to related parties		409,663	135,724
Amounts due to domestic carriers		1,123,580	816,535
Current portion of obligations under finance leases		16,793	8,151
Current portion of long-term bank loans	*(f)*	5,459,505	1,925,870
Taxes payable		1,106,006	1,443,917
Advances from customers		6,240,225	3,364,913
Short-term loans from Unicom Group		724,127	1,799,395
Short-term bank loans		9,146,500	7,290,000
Total current liabilities		44,609,442	36,283,636
Net (liabilities) current assets		(13,196,955)	15,918,684
Total assets less current liabilities		105,956,414	117,887,978

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Note	The Group 2002 RMB'000	2001 RMB'000
Shareholders' equity		63,717,006	61,783,297
Minority interests		566,257	829,405
Non-current liabilities:			
Long-term bank loans	*(f)*	37,686,162	51,732,626
Obligations under finance leases		101,302	100,757
Deferred revenue		3,873,179	3,401,965
Other long-term liabilities		12,508	39,928
Total long-term liabilities		41,673,151	55,275,276
Total liabilities and shareholders' equity		105,956,414	117,887,978

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	RMB'000
Balance as of 1 January 2001 as previously reported before adjusting for the acquisition of Unicom New Century	56,510,776
Adjustment for the acquisition of Unicom New Century	248,416
Balance as of 1 January 2001 as adjusted for the acquisition of Unicom New Century	56,759,192
Net profit for the year ended 31 December 2001	5,074,321
Deemed capital contribution from owner for employee housing benefits	18,532
Distribution to owner	(68,748)
Balance as of 31 December 2001	61,783,297
Net profit for the year ended 31 December 2002	5,147,294
Deemed capital contribution from owner for employee housing benefits	18,532
Contribution from owner	1,567,883
Deemed capital distribution to Unicom Group relating to the payment of purchase price for Unicom New Century	(4,800,000)
Balance as of 31 December 2002	63,717,006

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group 2002 RMB'000	2001 RMB'000
Net cash inflow (outflow) from:		
Operating activities	16,962,185	14,630,215
Investing activities	(7,252,758)	(58,134,015)
Financing activities	(14,584,659)	16,989,059
Net decrease in cash and cash equivalents	(4,875,232)	(26,514,741)
Cash and cash equivalents, beginning of year	19,308,730	45,823,471
Cash and cash equivalents, end of year	14,433,498	19,308,730
Interest paid (net of amount capitalised)	(2,254,457)	(2,519,279)

Supplemental Information

Payables to equipment suppliers for construction-in-progress during the year ended 31 December 2002 decreased by approximately RMB1,337 million (2001: increased by approximately RMB1,235 million).

(a) Property, Plant and Equipment, Net

	The Group 2002 RMB'000	2001 RMB'000
Buildings	10,131,067	6,594,037
Telecommunication equipment	108,615,822	85,359,000
Office furniture, fixtures and others	4,855,373	3,132,238
Leasehold improvements	1,069,153	821,082
Construction-in-progress	19,419,349	23,843,437
	144,090,764	119,749,794
Less: Accumulated depreciation	(36,780,171)	(23,529,560)
	107,310,593	96,220,234

(b) Other Assets

	The Group 2002 RMB'000	2001 RMB'000
Interconnection facilities	568,099	542,007
Prepaid rental and leased line	1,753,709	1,458,657
Deferred direct incremental costs	4,606,300	3,556,470
Other	869,558	390,346
	7,797,666	5,947,480
Less: Accumulated amortisation	(2,709,850)	(1,650,939)
	5,087,816	4,296,541
Deferred customer acquisition costs of contractual CDMA subscribers	5,474,164	—
	10,561,980	4,296,541

(c) Taxation

Detail description in relation to the assessment basis of income tax liability of the Group were set forth in Note 10 of this financial statements.

The income tax liability of Unicom New Century was assessed as follows:

(i) For both 2002 and 2001, Unicom Group was assessed for PRC enterprise income tax liability under the relevant tax rules and regulations applicable to state-owned enterprises, and at the statutory rate of 33% on a consolidation basis as a single entity. The tax provision for Unicom New Century was determined on a separate return basis using the same tax policy applicable to Unicom Group. Under this basis, the tax liabilities attributable to Unicom New Century were determined as if it were assessed for income tax separately from Unicom Group; and

(ii) Various provincial branches of Unicom New Century including Sichuan, Chongqing, Xinjiang, Shannxi and Guangxi were granted a western region preferential treatment by tax authorities to assess their enterprise income tax at a tax rate of 15% for year 2002 (2001: 33%). The remaining provincial branches were assessed at a tax rate of 33%.

The components of income tax are as follows:

	2002 RMB'000	2001 RMB'000
Provision for PRC enterprise income tax of the estimated taxable profits for the year	1,375,857	1,971,691
Deferred taxation	326,366	(850,745)
	1,702,223	1,120,946

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

	2002	2001
PRC		
Statutory tax rate of 33%	33.0%	33.0%
Non-deductible expenses:		
- Housing benefits	0.1	1.7
- Personnel expenses	0.7	2.2
- Selling and marketing expenses	0.1	0.1
Effect of preferential tax rates	(3.1)	(2.0)
Investment tax credits	(4.5)	(0.8)
Additional depreciation deductible for tax purpose	(1.1)	(7.4)
Effective PRC income tax rate	25.2%	26.8%
Effective HK income tax rate	—	—
Total overall effective income tax rate	24.7%	18.2%

(c) Taxation (continued)

Effect of preferential tax rates is as follows:

	2002	2001
Aggregate amount (RMB in millions)	209.3	83.6
Per share effect (RMB)	0.017	0.007

The movement of deferred tax assets is as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Balance, beginning of year	1,996,773	1,146,028
Deferred taxation charged to net profit before cumulative effect of change of accounting policy	(326,366)	850,745
Deferred taxation in relating to cumulative effect of change of accounting policy	20,773	—
Balance, end of year	1,691,180	1,996,773

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

	The Group	
	2002 RMB'000	2001 RMB'000
Non-current deferred tax assets:		
Deferral and amortisation of upfront non-refundable revenue and incremental costs	930,033	696,371
Interest on loans from CCF joint ventures	287,998	317,447
Loss arising from terminations of CCF Arrangements	309,813	401,845
Operating loss of a subsidiary prior to 2001(Note 1)	107,299	107,299
Provision for impairment loss of property, plant and equipment	110,075	150,556
Provision for impairment loss of goodwill	27,620	33,314
Provision for doubtful debts	547,289	515,340
Write-off of other assets	17,662	24,368
Amortisation of retirement benefits	37,379	39,852
Additional depreciation deductible for tax purpose	171,091	232,291
Differences in tax basis of the residual value of the property, plant and equipment	19,634	—
Other	86,953	45,777
	2,652,846	2,564,460
Less: Valuation allowance	(107,299)	(107,299)
	2,545,547	2,457,161
Non-current deferred tax liabilities:		
Deferral and amortisation of upfront non-refundable revenue and incremental costs	(1,079,960)	(923,427)
Accelerated depreciation for tax purpose	(76,468)	(161,924)
Capitalised interest already deducted for tax purposes	(200,857)	(135,224)
	(1,357,285)	(1,220,575)
Net deferred tax assets	1,188,262	1,236,586
Current portion of deferred tax assets		
Income tax on advances from customers for telephone cards	471,657	720,043
Write-down of inventory to net realisable value	31,261	35,819
Other	—	4,325
	502,918	760,187
Total	1,691,180	1,996,773

Notes (1): Refer to Note 2 of net profit reconciliation table.

(d) Prepayment and Other Current Assets

	The Group 2002 RMB'000	2001 RMB'000
Deposits and prepayments	1,069,939	748,233
Interest receivables	37,780	167,004
Advances to employees	106,749	96,526
Deferred customer acquisition costs of contractual CDMA subscribers	508,596	—
Others	850,700	136,943
	2,573,764	1,148,706

(e) Payables and Accrued Liabilities

	The Group 2002 RMB'000	2001 RMB'000
Payables to contractors and equipment suppliers	13,703,912	15,627,669
Accrued expenses	1,139,645	815,734
Payables to telecommunications products suppliers	2,395,928	125,801
Customer deposits	784,156	283,961
Salary and welfare payables	775,668	638,822
Other	1,012,653	749,918
	19,811,962	18,241,905

(f) Long-term Bank Loans

	Interest rate and final maturity	The Group 2002 RMB'000	2001 RMB'000
Renminbi denominated bank loans	Fixed interest rate ranging from 4.54% to 6.24% (2001: 5.46% to 7.65%) per annum with maturity through 2008 (2001: maturity through 2007)		
- secured		24,627,646	25,443,751
- unsecured		18,518,021	28,214,745
		43,145,667	53,658,496
Less: Current portion		(5,459,505)	(1,925,870)
		37,686,162	51,732,626

(f) Long-term Bank Loans (continued)

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

	The Group	
	2002 RMB'000	2001 RMB'000
Balances due:		
- 2002	—	1,925,870
- 2003	5,459,505	12,190,111
- 2004	4,825,581	10,436,529
- 2005	22,039,439	20,327,681
- 2006	8,047,373	5,444,834
- 2007	2,494,410	1,550,000
- Thereafter	279,359	1,783,471
	43,145,667	53,658,496
Less: Portion classified as current liabilities	(5,459,505)	(1,925,870)
	37,686,162	51,732,626

As of 31 December 2002, long-term bank loans were secured by the following:

(i) approximately RMB24,308 million (2001: RMB25,044 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches and RMB3,471 million (2001: RMB850 million) of which was also guaranteed by Unicom Group; and

(ii) in addition to the above, approximately RMB9,164 million (2001: RMB9,073 million) of long-term bank loans were guaranteed by Unicom Group.

(g) Related Party Transactions

	2002 RMB'000	2001 RMB'000
Transactions with Unicom Group and its subsidiaries:		
Interconnection and roaming revenues	604,830	363,644
Interconnection and roaming charges	175,436	224,077
Rental charges for premises, equipment and facilities	25,035	24,963
Rental income for premises and facilities	3,434	—
Revenue for leasing of transmission line capacity	281,685	107,299
Commission revenue for sales agency services	—	14,560
Sales of CDMA mobile handsets	887,885	—
Charges for the international gateway services	15,626	—
Leasing of satellite transmission capacity	35,153	61,778
Purchase of telecom cards	1,234,479	1,640,228
CDMA network capacity lease rental	1,173,897	—
Commission expenses for sales agency services incurred for telecom cards	18,497	2,616
Rental charges for leasing of transmission line	—	16,882
Agency fee incurred for procurement of telecommunications equipment	17,087	143,881
Rental for the PRC corporate office	7,598	10,131
Sales of telecommunications equipment	16,088	—

Detail description of the nature and terms of the related party transactions are set forth in Note 32 of this financial statements.

MOVEMENT OF SIGNIFICANT PROVISIONS

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

	The Group 2002 RMB'000	2001 RMB'000
Balance, beginning of year	107,299	107,299
Provision for the year	—	—
Balance, end of year	107,299	107,299

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

	The Group 2002 RMB'000	2001 RMB'000
Balance, beginning of year	1,271,974	862,982
Provision for the year	1,258,287	675,784
Written-off for the year	(796,289)	(266,792)
Balance, end of year	1,733,972	1,271,974

MOVEMENT OF SIGNIFICANT PROVISIONS (continued)

(c) Other than those described in the above notes, there was no other significant movement of provisions for the years ended 31 December 2002 and 2001 except for the provisions for impairment loss of equipment amounted to approximately RMB457 million and provisions for impairment loss of goodwill amounted to approximately RMB101 million under US GAAP in 2001.

COMPREHENSIVE INCOME STATEMENT

According to SFAS No. 130 "Reporting of Comprehensive Income", certain items shown as components of common equity must be more prominently reported in a separate statement as components of comprehensive income. For the years ended 31 December 2002 and 2001, apart from the net profit, there was no other comprehensive income which should be included in the statement of comprehensive income.

SHARE OPTION SCHEME

As disclosed in Note 30, information relating to the share options outstanding under the Pre-Global Offering Share Option Scheme and Share Option Scheme as of 31 December 2002 and 2001 is as follows:

	2002		2001	
	Options outstanding	Weighted average exercise price HK$	Options outstanding	Weighted exercise average price HK$
Outstanding, beginning of year	33,840,600	15.42	27,116,600	15.42
Granted during the year	36,028,000	6.18	6,724,000	15.42
Outstanding, end of year	69,868,600	10.66	33,840,600	15.42

As of 31 December 2002, 33,840,600 share options (2001: 6,724,000 share options) were exercisable and the weighted average exercise price was HK$15.42 (2001: HK$15.42). Also, as of 31 December 2002, weighted average remaining contractual life of the options outstanding was approximately 6.5 years (2001: 8.5 years).

The SFAS No. 123 method of accounting is based on several assumptions and should not be viewed as indicative of the operation of the Company in future periods. The estimated fair value of each option granted to the employees of the Group on the date of grant is estimated by using the Black-Scholes option pricing method based on the following assumptions:

	2002	2001
Estimated fair value (in HK dollars)	2.48	4.90
Risk free interest rate	3%	6%
Expected life (in years)	5	8
Expected dividend yield	0%	0%
Volatility	41%	52%

Had the compensation costs for the plan been determined based on the estimated fair value at the grant dates for awards under the plan consistent with the method of SFAS 123, the Group's net income and earnings per share on a pro forma basis for the years ended 31 December 2002 and 2001 are disclosed in the aforementioned Note G.