SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

9 **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

: **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2001

OR

9 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to ________

Commission file number 1-15028

CHINA UNICOM LIMITED
(Exact Name of Registrant as Specified in Its Charter)

N/A	Hong Kong
(Translation of Registrant's Name Into English)	(Jurisdiction of Incorporation or Organization)

12/F Office Tower 1
Henderson Center
18 Jian Guo Men Nei Avenue
Beijing 100005, People's Republic of China
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Ordinary shares, par value HK$0.10 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 10 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

12,552,996,070 Ordinary Shares as of December 31, 2001.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes T No

Indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 Item 18 T

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report for the year ended December 31, 2001 contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, our strategy and future plan, our capital expenditure plan, our future business condition and financial results, our abilities to expand network capacity and increase network efficiency, our ability to develop new technology applications and offer new services, the advantage of code division multiple access, or CDMA, technology and our ability to realize such advantages and successfully execute our CDMA-related strategy, our ability to leverage our position as an integrated telecommunications operator and expand into new business and new markets, future growth of market demand for our services, and future regulatory and other developments in the Chinese telecommunications industry.

Such forward-looking statements reflect our current views with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory policies of the Ministry of Information Industry and other relevant government authorities in China, the effects of competition on the demand and price of our telecommunications services, any changes in telecommunications and related technology and applications based on such technology, and changes in political, economic, legal and social conditions in China including the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including the availability of adequate financing on acceptable terms, the adequacy of currently available spectrum or availability of additional spectrum and the adequate and timely supply of equipment when required. Please also see the "Risk Factors" section under Item 3.

CERTAIN DEFINITIONS

As used in this annual report, references to "us","we", the "Company" and "Unicom" are to China Unicom Limited. Unless the context otherwise requires, these references include all of our subsidiaries. In respect of any time prior to our incorporation, references to "us", "we" and "Unicom" are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to "Unicom Group" are to China United Telecommunications Corporation, our indirect controlling shareholder. Unless the context otherwise requires, these references include all of its subsidiaries, including us and our subsidiaries.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

The following table presents our historical income statement data for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 and our selected historical balance sheet data as of December 31, 1997, 1998, 1999, 2000 and 2001. The selected consolidated balance sheet data as of December 31, 2000 and 2001 and income statement and cash flow data for the years ended December 31, 1999, 2000 and 2001 have been derived from our audited consolidated financial statements included in this annual report. The selected consolidated balance sheet data as of December 31, 1997, 1998 and 1999 and income statement and cash flow data for the year ended December 31, 1997 and 1998 have been derived from our audited consolidated financial statements that are not included in this annual report. These financial statements have been prepared as if our current structure had been in existence throughout the relevant periods and they reflect historical results of operations and financial positions of the businesses which were transferred to us from Unicom Group in 2000 in contemplation of our initial public offering.

Our financial statements are prepared in accordance with generally accepted accounting principles in Hong Kong, or Hong Kong GAAP, which differs in certain material respects from generally accepted accounting principles in the United States, or US GAAP. See Note 41 to the consolidated financial statements included in this annual report for a summary of the principal differences between Hong Kong GAAP and US GAAP that have a significant effect on our financial statements.

SELECTED FINANCIAL DATA

	As of or for the year ended December 31,					
	1997	1998	1999	2000	2001	2,001
	RMB	RMB	RMB	RMB	RMB	US$(1)
	(in millions, except per share numbers)					
Income Statement Data:						
Hong Kong GAAP:						
Revenue:						
Cellular	810	2,126	5,314	12,188	20,505	2,477
Paging	7,273	8,423	9,047	8,483	4,342	525
Long distance, data and Internet	----	----	79	1,096	3,309	400
Total service revenue	8,083	10,549	14,440	21,767	28,156	3,402
Sales of telecommunications products	5,291	3,480	3,010	1,925	1,237	149
Total revenue	13,374	14,029	17,450	23,692	29,393	3,551
Operating expenses	11,758	12,677	14,634	18,470	24,129	2,915
Operating income	1,616	1,352	2,816	5,222	5,264	636
Income before taxation and minority interests	1,320	875	1,759	4,482	5,463	660
Net income	599	372	839	3,234	4,457	538
–Basic net income per share (2)	0.06	0.04	0.09	0.29	0.36	0.04
–Diluted net income per share (2)	----	----	----	0.29	0.36	0.04
–Basic net income per ADS (3)	0.62	0.38	0.86	2.89	3.55	0.43
–Diluted net income per ADS (3)	----	----	----	2.88	3.55	0.43
US GAAP:						
Total revenue	13,152	13,598	16,952	21,434	28,847	3,485
Operating income	1,407	949	2,497	5,183	5,358	647
Income from continuing operations before extraordinary items	441	137	888	4,113	4,722	571
Extraordinary item (loss arising from termination of China-China-foreign arrangements)	----	----	151	1,932	----	---
Net income	441	137	737	2,181	4,722	571
–Basic net income per share after extraordinary item (2)	0.05	0.01	0.08	0.19	0.38	0.05
–Basic net income per ADS after extraordinary item (3)	0.45	0.14	0.76	1.94	3.77	0.46
–Basic net income per share before extraordinary item (2)	0.05	0.01	0.09	0.37	0.38	0.05
–Basic net income per ADS before extraordinary item (3)	0.45	0.14	0.91	3.67	3.77	0.46
Balance Sheet Data:						
Hong Kong GAAP:						
Cash and cash equivalent	1,497	4,337	6,002	44,717	18,413	2,225
Total assets	17,470	30,156	45,366	112,829	127,905	15,454
Net assets	6,380	8,924	11,069	58,108	62,511	7,553
Short-term debt	380	2,276	7,894	8,501	7,933	958
Long-term debt	5,944	9,372	12,234	27,151	36,337	4,390
Shareholders' equity	5,176	6,408	8,538	57,224	61,681	7,452
US GAAP:						
Total assets	17,481	30,206	45,504	112,921	127,993	15,464
Shareholders' equity	4,858	5,859	7,904	56,511	61,252	7,401
Other Financial Data:						
Hong Kong GAAP:						
Capital expenditure	(4,598)	(8,290)	(12,697)	(25,180)	(31,253)	(3,776)
Net cash provided by operating activities	2,152	5,400	6,856	10,229	13,249	1,601

	As of or for the year ended December 31,					
	1997	**1998**	**1999**	**2000**	**2001**	**2,001**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except per share numbers)					
Net cash used in investing activities	(4,781)	(8,402)	(13,930)	(30,551)	(46,125)	(5,573)
Net cash provided by financing activities	4,064	7,788	11,084	59,921	8,743	1,056
Adjusted EBITDA (4)	2,916	3,613	6,507	10,957	13,526	1,634
US GAAP:						
Net cash provided by operating activities	1,463	4,804	5,474	9,344	11,078	1,338
Net cash used in investing activities	(4,781)	(8,402)	(13,930)	(30,551)	(46,125)	(5,573)
Net cash provided by financing activities	3,652	6,438	10,121	59,921	8,743	1,056
Adjusted EBITDA (4)	2,749	3,339	6,317	10,904	13,612	1,645

(1) The translations of RMB into US dollars have been made at the rate of RMB 8.2766 to US$1.00, the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001. The translations are solely for the convenience of the reader.

(2) See Note 15 to the consolidated financial statements included in this annual report on how basic and diluted net income per share are calculated.

(3) Net income per ADS is calculated by multiplying net income per share by 10, which is the number of shares represented by each ADS.

(4) Adjusted EBITDA represents income before net financial income (expenses), other income (expenses), taxation, depreciation and amortization, minority interest and, for 1999 and 2000, losses arising from the termination of China-China-foreign arrangements. Since the telecommunications business is a capital intensive business, capital expenditure and the level of debt and interest expenses may have a significant impact on net income for companies with similar operating results. Therefore, we believe that, for a growing telecommunications company such as us, EBITDA provides a useful reflection of its operating results. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, debt capacity and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. In addition, our adjusted EBITDA as described in this annual report is not necessarily comparable with similarly titled measures for other companies.

Historical Exchange Rates Information

We publish our financial statements in Renminbi, or RMB, the legal tender currency in the People's Republic of China. In this annual report, references to "US dollars"or "US$" are to United States dollars and references to "Hong Kong dollars", "HK dollars" or "HK$" are to Hong Kong dollars. Solely for the convenience of the reader, this annual report contains translations of certain RMB amounts into US dollar amounts at specified rates. These translations should not be construed as representations that the RMB amounts actually represent such US dollar amounts or could be converted into US dollar amounts at the rates indicated or at all. Unless otherwise stated, the translations of RMB into US dollars and vice versa have been made at the rate of RMB 8.2766 to US$1.00, the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001.

The noon buying rate on June 19, 2002 was RMB 8.2774 to US$1.00. The average noon buying rates for 1997, 1998, 1999, 2000 and 2001 were 8.3100, 8.3008, 8.2795, 8.2784 and RMB 8.2772, respectively, to US$1.00, calculated as the average of the exchange rates on the last day of each month during each applicable year. The following table sets forth the high and low noon buying rates between RMB and the US dollar (in RMB per US dollar) for each month during the previous six months:

Period	High	Low
	(RMB per US$1.00)	
December 2001	8.2773	8.2676
January 2002	8.2800	8.2765
February 2002	8.2770	8.2765
March 2002	8.2780	8.2766
April 2002	8.2780	8.2769
May 2002	8.2775	8.2765

RISK FACTORS

Risks Relating to Our Business

Our cellular business faces intense competition from China Mobile Communications Corporation, or China Mobile. Such competition may result in slower subscriber growth, lower tariffs and higher customer acquisition costs for us, which would adversely affect our results of operations, financial condition and growth prospects.

Our cellular business faces intense competition from China Mobile. China Mobile is the dominant cellular operator in China and in our cellular service areas and has competitive advantages over us in customer base, overall network coverage and quality, financial resources, network management and technical expertise and brand recognition. We are experiencing intense competition, including price competition, from China Mobile in many of our service areas, and such competition may continue and further intensify. In addition, our cellular services also compete with the wireless services of China Telecommunications Corporation, or China Telecom, and the newly formed China Netcom Group, or China Netcom, known as "Little Smart" services, that are based on their fixed line networks and utilize personal handyphone system, or PHS technology. Partly as a result of increased competition, the churn rate of our cellular services increased from 9.5% in 2000 to 16.3% in 2001. Increased competition may lead to slower subscriber growth, lower tariffs and higher costs of customer acquisition, which would adversely affect our results of operations, financial condition and growth prospects.

Our long distance, data and Internet businesses are relatively small, and competition from China Telecom and China Netcom may adversely affect our growth and profitability in these businesses.

The Chinese government has recently separated the fixed line incumbent China Telecom into two companies with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern and western China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with China Netcom Corporation Ltd, or CNCL, and Jitong Network Communications Company Limited, or Jitong, to form China Netcom. China Telecom and China Netcom currently hold a dominant market position in the circuit switched long distance telephony and data services markets in China in their respective service areas. They are also the dominant provider of Internet protocol telephony, or IP telephony, and Internet access services in China. Together they operate the primary public switched telephone network, or PSTN, in China and provide local telephony services throughout China. They also operate the largest data, Internet, broadband access and transmission networks in China. China Telecom and China Netcom have competitive advantages over us in customer base, financial resources, network coverage and "last-mile" access, technical expertise and brand recognition. Competition from China Telecom and China Netcom have adversely affected and may continue to adversely affect the growth and profitability of our long distance, data and Internet businesses and consequently our overall results of operations, financial condition and growth prospects.

New entrants in the telecommunications industry in China may further intensify industry competition and adversely affect our results of operations.

The Chinese government has taken various measures in the last several years to encourage competition in the telecommunications industry. For example, it authorized CNCL and Jitong to offer IP telephony, data and Internet services. It also authorized China Railways Communications Limited, or China Railcom, to provide a broad range of telecommunications services other than cellular communications services. The recent restructuring of China Telecom is another step taken by the government to increase competition in fixed line telecommunications services and is likely to result in two strong nationwide competitors for us in fixed line services.

After its accession to the World Trade Organization, or WTO, in December 2001, China has promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in China to foreign operators. The government may license additional telecommunications service providers in the future, including potentially additional cellular operators or operators with foreign investment.

Foreign-invested operators entering into China's telecommunications market may have competitive advantages over us in financial resources, network management and technical expertise. Increased competition from new entrants in China's telecommunications services industry could impede the growth of our businesses, further increase competition for skilled and experienced employees, increase our customer acquisition costs, and thereby adversely affect our results of operations, financial condition and growth prospects.

If the Chinese government terminates or materially reduces the preferential treatment available to us, we may lose important competitive advantages.

We currently receive preferential treatment from the Chinese government that is intended to enhance our competitiveness and help us compete with the incumbent operators. For example, we are permitted to set our cellular service tariffs at levels of up to 10% below the state tariff rates and adopt circuit switched long distance tariffs that are different from the state guidance rates upon approval by the Ministry of Information Industry. This pricing flexibility has helped us capture a significant number of cellular and long distance subscribers by allowing us to market our services at rates below those of our major competitors. In addition, we are permitted to offer a comprehensive range of telecommunications services in China, which represents another competitive advantage over the incumbent operators. We expect that the Chinese government will further deregulate the telecommunications industry, which may lead to the reduction or termination of its preferential treatment to us. In the event that the Chinese government reduces or terminates the preferential treatment extended to us, we may lose important competitive advantages and our results of operations, financial condition and growth prospects may be adversely affected.

We have started to lease capacity on cellular networks based on code division multiple access, or CDMA, technology from Unicom Group and offer CDMA cellular services beginning in January 2002, which may to some extent compete with and adversely affect our existing services based on global system for mobile communication, or GSM, technology.

Most of our current cellular service users subscribe to cellular services based on the GSM standard. Our controlling shareholder, Unicom Group, has constructed new cellular networks nationwide based on CDMA technology. The initial phase of the construction was completed at the end of 2001. We have leased a portion of the total capacity of those networks from Unicom Group and started to offer CDMA cellular services in our cellular service areas beginning in January 2002. While we target our new CDMA service offerings to mid- to high-end cellular subscribers and our GSM cellular services have attracted mostly mid- and low-end cellular subscribers, our new CDMA cellular services may compete with our GSM cellular services for subscribers. They may also compete for our management, financial, human and other resources otherwise allocated to our GSM cellular services. Our inability to obtain adequate resources for both our GSM and CDMA cellular services may adversely affect the growth and profitability of these businesses and our results of operations, financial condition and growth prospects.

Our new CDMA services are unproven in China, have experienced some difficulties in gaining market acceptance since their launch in January 2002 and may fail to gain broad market acceptance and achieve profitability.

Since we launched our CDMA services in January 2002, we have encountered some difficulties when promoting these services. Digital cellular services in China have been based on GSM technology. CDMA cellular services are relatively new and unproven in China. They compete with GSM cellular services for existing cellular subscribers, who are generally more familiar with GSM technology and may be reluctant to switch to CDMA cellular services because of the need to obtain a new CDMA handset and phone number. The initial launch of our CDMA services has been significantly hindered by a lack of handset variety and supply and high handset price. In addition, the present coverage of our CDMA networks is not as extensive in many areas as the coverage of existing GSM networks, including those of our competitor, China Mobile. CDMA services are also perceived to have limitations in international roaming due to the lack of CDMA networks in many countries.

As of May 31, 2002, we had approximately 785,000 CDMA subscribers. Whether our CDMA services can gain broader market acceptance or achieve profitability will continue to be subject to a number of uncertainties, including:

whether a sufficient quantity and variety of high-quality, attractive CDMA handsets will be available in time and at affordable prices to meet the demand of consumers,

whether the CDMA networks have sufficient coverage, capacity and quality to provide quality services necessary to attract our targeted customers,

whether we can timely and effectively deploy more advanced CDMA technology, known as 1XRTT technology, and develop and offer a variety of high-speed wireless data services necessary to attract our targeted customers, and

whether we can effectively promote our CDMA services and successfully execute our strategy of targeting mid- to high-end cellular subscribers.

As a result of these difficulties and uncertainties, our new CDMA cellular services may not attract cellular subscribers in sufficient numbers and of sufficient quality and the growth and profitability of such services and our overall business results of operation and financial condition, may be adversely affected.

Our limited spectrum allocations for GSM cellular services may impose capacity constraints on our GSM cellular networks, which may adversely affect the quality of our cellular services and the growth and profitability of our GSM cellular business.

The Chinese government has allocated 6x2 MHZ in the 900 MHZ frequency band and 10x2 MHZ in the 1800 MHZ frequency band to Unicom Group for its and our GSM cellular networks. The Chinese government has stated that it will not make any further allocation in the 900 MHZ frequency band. The limited spectrum we have in the 900 MHZ band has to some extent constrained our network capacity and adversely affected our services in some metropolitan areas. As a result, we have deployed GSM systems that operate in the 1800 MHZ frequency band in a number of cities to supplement our existing capacity in the 900 MHZ band. In addition, we have started to offer CDMA services in our cellular service areas, which operate in the 800 MHZ frequency band. While we believe our current total GSM spectrum allocations are sufficient to accommodate our operations and anticipated growth in our GSM subscribers, we may need additional GSM spectrum in the future to accommodate subscriber growth. However, there is no assurance that we will be able to obtain additional spectrum on acceptable terms or at all.

Failure or inability to continue to expand and improve our networks timely and effectively could hinder our growth.

The growth of our businesses depends on whether we are able to continue to expand the coverage and capacity of our networks and improve the quality of our networks in a timely and effective manner. For example, rapid growth of our cellular subscribers in some of our service areas had in the past resulted in our reaching or exceeding our existing network capacity, which has limited our subscriber growth in those areas. In addition, although we have built nationwide networks for our long distance, data and Internet services, the ability to attract corporate customers for those services often depends on our ability to construct metropolitan area networks and access networks connecting these customers and their offices with our networks. We also need to continue to improve the quality of our existing networks in order to enhance the quality of our services. Our ability to expand and improve our networks is subject to a number of uncertainties, including our ability to achieve the following on a timely basis and on acceptable terms:

- obtain adequate financing,
- retain experienced management and technical personnel,
- obtain relevant government permits and approvals and gain access to office towers, residential buildings and other sites for network construction,
- enter into interconnection and other arrangements with other operators, and
- obtain adequate network equipment and software.

In the past, we have experienced delays in network construction as a result of some of these uncertainties. Difficulties we may encounter in expanding and improving our networks, if not adequately resolved on a timely basis, could adversely affect our results of operations, financial condition and growth prospects.

Disruption in interconnection with networks of other operators could jeopardize our operations.

Our cellular, long distance telephony and other services depend on interconnection with networks of China Telecom, China Netcom, China Mobile and other operators. In particular, we do not have direct connectivity with the premises of most of our long distance and Internet services customers and obtain access through the local networks of China Telecom and China Netcom. Any disruption of existing interconnection arrangements or change of the terms thereof, as a result of natural events, accidents, regulatory, technological, competitive or other reasons could lead to service disruptions and increased costs that can seriously jeopardize our operations and adversely affect our growth and profitability. Difficulties in the execution of new interconnection arrangements on a timely basis and on acceptable terms, including the inability to promptly establish additional interconnection links or increase interconnection bandwidths as required, could also adversely affect our operations, growth and profitability.

Unicom Group, as our controlling shareholder, can exert influence on us and cause us to make decisions that may not always be in the best interests of our other shareholders.

Unicom Group indirectly owned an aggregate of 77.47% of our issued share capital as of December 31, 2001. As our controlling shareholder, it is able to influence our major business decisions by its control of our board of directors. The interests of Unicom Group as our majority shareholder could conflict with the interests of the other holders of our shares and ADSs. Most of our executive directors and executive officers also serve as directors or executive officers of Unicom Group. In addition, our operations depend on a number of services provided by Unicom Group. It provides us with access to international gateways, supplies us with SIM cards and calling cards and provides equipment procurement services to us. Presently, we and Unicom Group provide a number of services to each other, including interconnection and roaming services, sales agency and collection services, leasing of transmission line capacity, leasing of CDMA network capacity, equipment procurement services and provision of premises. The interests of Unicom Group and our interests in these transactions may differ. See “Relationship with Unicom Group” under Item 7 of this annual report.

Unicom Group operates paging businesses that may compete with our paging businesses and has the ability to offer CDMA cellular services that will compete with our GSM cellular services if we decide to discontinue our CDMA services in the future.

Unicom Group holds a controlling interest in a nationwide paging company, Unicom Paging Limited, or Unicom Paging, which is separate from the nationwide paging business operated by our wholly owned subsidiary Guoxin Paging. As of December 31, 2001, Guoxin Paging was the largest paging operator in China with 32.9 million subscribers, and Unicom Paging was the second largest paging company in China with 3.2 million subscribers. We integrated some of the management and operations of Guoxin Paging with those of Unicom Paging in 2001 in order to facilitate resource sharing and reduce competition between the two paging companies. Prior to such integration, Unicom Paging has been marketing its services under the marketing name of Unicom Paging. After the integration, Guoxin Paging and Unicom Paging jointly market their services under the marketing name of Unicom Paging and share some management and sales and marketing personnel. Their networks and service offerings remain separate from each other and they otherwise remain separate businesses. Unicom Paging may continue to compete with Guoxin Paging.

We lease from Unicom Group a portion of the capacity of its CDMA networks and offer CDMA cellular services in our service areas on an exclusive basis. We also have an option to acquire the CDMA networks from Unicom Group. However, if we decide to terminate the lease and discontinue our CDMA services in the future, Unicom Group may offer CDMA cellular services that will compete with our GSM cellular services.

We expect to have significant capital expenditure requirements in the future, and our inability to fund these requirements may adversely affect our growth and profitability.

We expect to require approximately RMB 21.7 billion for capital expenditure in 2002. See “Liquidity and Capital Resources — Capital Expenditures” under Item 5. In the future we may be unable to obtain the necessary financing on a timely basis and on acceptable terms, and our failure to do so may adversely affect our competitive position, growth and profitability. Our ability to obtain acceptable financing at any time may depend on a number of factors, including:

- our financial condition and results of operations,
- our future prospects, including the outlook for our business, financial position and results of operations,
- the condition of the economy and the telecommunications industry in China and elsewhere in the world,
- the cost of any available financing,
- conditions in relevant financial markets in China and elsewhere in the world, and
- our ability to obtain any required government approvals.

Changes in technology may render our current technologies obsolete or inadequate and require us to make substantial capital investments.

The telecommunications industry in China and elsewhere in the world is subject to rapid and significant changes in technology. Such changes may render our networks and systems obsolete or inadequate. As a result of such changes, we may need to make significant changes to existing networks and infrastructure or build new networks, which may require substantial capital expenditures. We may need to fund such capital expenditures through external financing, which may not be available on acceptable terms or at all. If we are unable to respond on a timely basis to rapid technological change, as a result of inability to obtain financing, unavailability of necessary equipment or technology or other difficulties, our competitive position, growth and profitability may be adversely affected. In addition, we cannot assure you that our investment in new technologies will generate an acceptable rate of return and will not adversely affect our results of operations, financial position and growth prospects.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers, reduce cellular service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, cellular operators have had lawsuits filed against them alleging various health consequences as a result of cellular handset usage or proximity to base stations or seeking protective measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with radiowave transmission will not impair our ability to retain customers and attract new customers, reduce cellular service usage or result in litigation.

Risks Relating to the Telecommunications Industry in China

New regulations or regulatory changes relating to telecommunications tariffs and other matters may adversely affect our results of operations.

The Chinese government currently regulates many aspects of the telecommunications industry in China. Deregulation of the telecommunications industry or changes in regulations and policies and uncertainties with respect to their implementation, including any regulatory measures relating to calling-party-pays arrangements or other tariff adjustments or universal service obligations, could adversely affect our results of operations, financial condition and growth prospects. In particular, the Chinese government sets state tariff rates for various telecommunications services. In 2001 it deregulated the tariffs for IP telephony services, leading to significant tariff decline for international long distance telephony services via IP telephony. If the Chinese government deregulates or reduces state tariff rates applicable to some of our services, our tariff levels and our results of operations and financial condition could be adversely affected.

The cellular communications sector in China may not sustain its pace of rapid growth and the paging sector may continue to decline, which may adversely affect the growth and profitability of our business.

The telecommunications industry in China has experienced rapid growth in the last several years, especially in the cellular communications sector. The total number of cellular subscribers in China increased from 43.2 million at the end of 1999 to 144.8 million by December 31, 2001, representing a compound annual growth rate of 83% . Cellular penetration increased from 3.4% to 11.2% nationwide during the same period. The rapid rate of growth in cellular subscribers may slow down as cellular penetration continues to increase in our cellular service areas. In addition, average revenue per user, or ARPU, per month for the cellular communications market in China continued to decline. For example, ARPU per month of our subscribers declined from RMB124.3 in 2000 to RMB 86.3 in 2001.

The total number of paging subscribers in China have declined since 2000. We continue to be the dominant paging service provider in China. The total number of our paging subscribers, however, decreased from 44.5 million at the end of 2000 to 32.9 million at the end of 2001. Our paging service revenue in 2001 declined by 48.8% from that in 2000. Any slow-down in the growth in China's cellular communications sector or further decline in the paging sector may adversely affect the growth and profitability of our businesses. In 2001 we recorded provision for impairment of assets of RMB0.63 billion in our paging business. The write-down reflects our assessment of the difference between the book-value of our paging assets and the recoverable value of these assets. We may have to make provisions for impairment of paging assets in the future, which will not affect the amount of our cash flow from operations but will adversely affect our net income. See "Operating Results – Year Ended December 31, 2001 Compared to Year Ended December 31, 2000 – Operating Expenses – General, Administrative and Other Expenses" under Item 5.

Risks Relating to the People's Republic of China

Substantially all of our assets are located in the People's Republic of China and substantially all of our revenues are derived from our operations in mainland China. Accordingly, our results of operations, financial position and prospects are subject, to a significant degree, to the political, economic, social and legal developments of the People's Republic of China.

Fluctuations in the value of the Renminbi could adversely affect our operating results and financial position.

Although the exchange rate between Renminbi and US dollars has been stable, with the Renminbi appreciating slightly against the US dollar in recent years, the exchange rate of the Renminbi may become volatile against the US dollar or other currencies in the future. Substantially all of our revenues and operating expenses are denominated in Renminbi, while a small portion of our equipment purchases and other capital expenditures are denominated in foreign currencies. Any devaluation of the Renminbi could adversely affect the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our shares and ADSs, and therefore the price of our shares and ADSs. Any future Renminbi devaluations could also increase our equipment acquisition costs and operating expenses, thereby adversely affecting our profitability.

If the Chinese government revises the current regulations allowing a foreign investment enterprise to pay foreign exchange in current account transactions, our subsidiary's ability to satisfy its foreign exchange obligations and pay dividends to us may be restricted.

The ability of our wholly owned operating subsidiary, China Unicom Corporation Limited, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future foreign exchange regulations in China. The Renminbi is currently convertible by foreign investment enterprises in China to settle transactions under the current account, which include trade and service related foreign exchange transactions and payments of dividends and interest on foreign loans. Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which include foreign direct investment and principal payments on foreign loans. China Unicom Corporation Limited, which holds substantially all of our assets and through which we conduct substantially all of our business, is a foreign investment enterprise in China. This status allows it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration for Foreign Exchange. However, the relevant Chinese government authorities may in the future impose limitation on the ability of foreign investment enterprises to purchase foreign exchange to satisfy their foreign exchange obligations or to pay dividends in the future.

Uncertainties in the Chinese legal system could limit the legal protections available to us and to foreign investors.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The Chinese legal system may not afford the same legal protection available to investors in the United States or elsewhere. China Unicom Corporation Limited, our wholly owned operating subsidiary in China, is generally subject to laws and regulations applicable to foreign investment enterprises in China and wholly owned foreign enterprises. The interpretation and enforcement of these laws and regulations also involve uncertainties, which could limit the legal protections available to us and to our shareholders.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

Industry Restructuring and Grant of New Licenses

Since 1993, the Chinese government has implemented a number of measures to restructure and introduce competition in the telecommunications industry. Prior to June 1994, China Telecom was the sole provider of telecommunications services in China. In June 1994, Unicom Group was established in accordance with the State Council's approval to introduce competition in the telecommunications industry. Since then, the Chinese government has approved Jitong and CNCL to provide IP telephony, Internet and data services. It has also approved China Railcom to provide most telecommunications services other than cellular services.

In 1999, the State Council approved a plan to restructure the former China Telecom along four business lines: fixed line, cellular, paging and satellite communications. As a result of the restructuring, China Telecom currently operates fixed line, data and Internet businesses. China Mobile has assumed the cellular business previously operated by China Telecom. As a result of the Chinese government's efforts to introduce competition in the telecommunications industry, there is currently more than one service provider in most of the sectors within the telecommunications industry.

The Chinese government has recently separated the fixed line incumbent China Telecom into two companies with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern and western China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom.

History of Unicom Group

As part of its efforts to introduce orderly competition to the telecommunications sector in China, the State Council approved the establishment of Unicom Group in December 1993 and authorized it to build and operate cellular networks and local and long distance networks. Unicom Group first developed a nationwide cellular network using GSM technology and a nationwide long distance telephony network.

In May 1997, the State Council granted approval to Unicom Group to provide data services. The Ministry of Information Industry licensed Unicom Group to begin to provide Internet services in July 1999 and IP telephony services on a trial basis in 12 cities in April 1999 and on a nationwide basis in March 2000. Unicom Group also offers local telephony services in the municipalities of Chengdu, Chongqing and Tianjin. It offers satellite transmission services through its subsidiary, China United Telecommunications Satellite Communication Co. Ltd., or Unisat.

In July 1999, in accordance with a State Council resolution, the Ministry of Information Industry and the Ministry of Finance approved the transfer of all of China Telecom's 99.67% ownership interest in Guoxin Paging Corporation Ltd., or Guoxin Paging, to Unicom Group. Guoxin Paging operated nationwide and regional paging networks. Unicom Group also developed a nationwide paging business through its subsidiary Unicom Paging.

In addition, the State Council granted Unicom Group approval to construct and operate a cellular network based on CDMA technology. By the end of 2001, Unicom Group has completed construction of the first phase of the nationwide CDMA network.

China-China-Foreign Arrangements of Unicom Group

Following its formation, Unicom Group commenced cooperation with foreign companies to develop its nationwide cellular network. A financing structure widely known as China-China-foreign arrangements, or CCF arrangements, was developed and used by Unicom Group and its foreign partners in their cooperation. Under a typical CCF structure, the foreign partner first established a joint venture with a Chinese enterprise. The joint venture then provided financing and technical support to a project of Unicom Group through a project cooperation contract. In return, the joint venture obtained the right to receive a percentage of the cash flow generated by the project for a fixed number of years. Altogether, Unicom Group adopted this CCF structure for more than 40 projects in a number of provinces and municipalities.

In August 1999, the Ministry of Information Industry officially announced that the CCF structure had contravened existing Chinese government policies and regulations and required that all CCF cooperation contracts be rectified and terminated. Unicom Group has terminated all CCF contracts related to its GSM cellular network projects transferred to us as part of the restructuring described below.

As part of the termination of CCF contracts by Unicom Group, other parties to the CCF contracts received cash payments in an amount representing their original funding plus an agreed amount of compensation. In addition, we granted some of these parties or their designees warrants to purchase our shares. The aggregate number of shares issuable upon exercise of these warrants was approximately 313 million shares. The exercise period for all warrants terminated on June 22, 2001 and none was exercised prior to termination of the exercise period.

The Restructuring of Unicom Group and Our Initial Public Offering

We are a company limited by shares incorporated under the Companies Ordinance of Hong Kong on February 8, 2000. Our registered office is at 75th Floor, The Center, 99 Queen's Road Central, Hong Kong (telephone number: 852-2126-2018). Our principal executive offices are located at 12/F, Office Tower 1, Henderson Center, 18 Jian Guo Men Nei Avenue, Beijing 100005, China (telephone number: 8610-6518-1800).

Under a reorganization agreement, dated April 21, 2000, between Unicom Group and China Unicom Corporation Limited, Unicom Group transferred to China Unicom Corporation Limited all of its assets, rights and liabilities in connection with the following telecommunications businesses:

- its cellular businesses in Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Hebei, Hubei and Anhui provinces and Beijing, Shanghai and Tianjin municipalities,
- its 99.67% shareholding interest in Guoxin,
- its nationwide long distance telephony business, including its IP telephony business, and

#	its nationwide data and Internet businesses.

Under an equity transfer agreement, dated April 21, 2000, among us, Unicom Group, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited, Unicom Group transferred to us its 100% equity interest in China Unicom Corporation Limited, which became our wholly owned operating subsidiary in China. In return, we issued 9,725 million shares to China Unicom (BVI) Limited, an indirect wholly owned subsidiary of Unicom Group.

We subsequently purchased the remaining 0.33% interest in Guoxin from its minority shareholders, raising our ownership interest in Guoxin to 100%.

In June 2000, we successfully completed our initial public offering of shares, or IPO, raising approximately US$5.65 billion. Upon completion of our IPO, our shares become listed and traded on the Hong Kong Stock Exchange and ADSs representing our shares are listed and traded on the New York Stock Exchange.

Our Relationship with Unicom Group Following the Restructuring

Following the restructuring of Unicom Group and our IPO, Unicom Group continues to own and manage the international gateways that provide international connections to our long distance network. Unicom Group also continues to operate the following telecommunications networks:

#	its cellular networks outside of our cellular service areas,

#	its local telephony networks in Chengdu, Chongqing and Tianjin,

#	the satellite transmission networks operated through Unisat, and

#	the paging networks operated through Unicom Paging.

Unicom Group continues to hold the licenses required for our telecommunications businesses and we derive our rights to operate our businesses from our status as a majority owned subsidiary of Unicom Group. Under the reorganization agreement referred to above, Unicom Group undertook to hold and maintain all licenses received from the Ministry of Information Industry in connection with our businesses solely for our benefit during the term of the licenses and at no cost to us. In addition, Unicom Group undertook to take all actions necessary to obtain and maintain for our benefit such governmental licences or approvals as we shall require to continue to operate our businesses.

In connection with the restructuring, we entered into a number of agreements with Unicom Group. These include arrangements for interconnection and roaming services between the telecommunications networks owned by us and Unicom Group and for the provision or sharing of telecommunications and ancillary services and facilities between us and Unicom Group. Unicom Group also retains its interests in its other subsidiaries which provide ancillary services to us, including the procurement of telecommunications equipment and the supply of SIM cards and calling cards.

Unicom Group has constructed new cellular networks nationwide based on CDMA technology. The initial phase of the construction was completed at the end of 2001. We have entered into a lease agreement with Unicom Group to lease a portion of the network capacity and started to offer CDMA cellular services on an exclusive basis in our cellular service areas. Unicom Group operates its CDMA networks outside of our cellular service areas. We also have an option to acquire the CDMA networks from Unicom Group.

Unicom Group also gave us an undertaking not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future, except through us. See "Related Party Transactions" under Item 7.

CAPITAL EXPENDITURES AND DIVESTITURES

See "Liquidity and Capital Resources — Capital Expenditures" under Item 5 for information concerning our principal capital expenditures for the previous three years and those planned for 2002. We have not undertaken any significant divestitures.

BUSINESS OVERVIEW

General

We are a fast growing, integrated provider of telecommunications services in China, offering a wide range of telecommunications services, including cellular, long distance, data, Internet and paging services.

We offer cellular communications services based on both GSM and CDMA technologies in 12 provinces in China. We had a total of 27.0 million GSM cellular subscribers at the end of 2001, more than twice the 12.8 million subscribers we had at the end of 2000. We are one of the two cellular services providers in our service areas. During 2001, we increased our market share from 22.7% to 28.5% in our service areas, attracting approximately 37.2% of net subscriber additions in those service areas. Our cellular business is our largest business, having contributed 72.5% of our total revenues in the year ended December 31, 2001. As of May 31, 2002, the total number of our GSM subscribers has increased to 32.1 million, including 17.3 million post-paid subscribers and 14.8 million pre-paid subscribers. We began to offer CDMA services in January 2002 and had approximately 785,000 subscribers as of May 31, 2002.

We provide traditional circuit switched and IP telephony international and domestic long distance, data and Internet services nationwide in China. All of these services were launched in 2000, with the exception of our IP telephony long distance service, which was launched in 1999. These businesses currently represent a relatively small portion of our overall business. Our long distance, data and Internet businesses contributed 11.3% of our total revenue in 2001, compared to 4.6% in 2000.

Our long distance services continue to grow rapidly. Our outgoing circuit switched and IP telephony long distance calls totaled 2.72 billion and 3.69 billion minutes, respectively, in 2001 and 2.36 billion and 2.25 billion minutes, respectively, in the first five months of 2002, compared to 0.24 billion and 0.69 billion minutes, respectively, in 2000. Our market share increased from 1.3% in 2000 to approximately 7.7% in terms of total outgoing long distance call minutes in 2001.

We are the largest paging operator in China with 32.9 million paging subscribers at the end of 2001. As of May 31, 2002, the total number of our paging subscribers decreased to 24.9 million.

Our fiber optic transmission network was significantly expanded in 2001. As of December 31, 2001, the total cable length of our transmission network reached 333,000 km, including 78,000 km for our long distance backbone transmission network, representing an increase of 113.5% and 39.3%, respectively, from the end of 2000.

Cellular Services

Our cellular business is our largest business, having contributed 72.5% of our total revenues in 2001. We offer cellular services in Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei and Hubei provinces and Beijing, Shanghai and Tianjin municipalities. Our service areas cover most of the coastal areas in China. These areas hosted approximately 65.5% of China's total cellular subscriber population at the end of 2001 and are economically more developed and generally more prosperous than other areas in China.

We offer both GSM cellular services and CDMA cellular services. We began to offer GSM cellular services in 1995 and currently most of our existing cellular users subscribe to our GSM cellular services. Beginning in January 2002, we began to offer CDMA cellular services. After a trial period of three months, we formally launched our CDMA services in April 2002. We have positioned our CDMA services as high quality, premium services targeted at mid- to high-end cellular subscribers and target mid- to low-end subscribers with our GSM services.

GSM Cellular Services

We centrally plan and oversee our provincial cellular businesses, which are operated by provincial branches of our operating subsidiary, China Unicom Corporation Limited. We centrally manage the key aspects of network construction such as network planning and design and selection of major equipment. We also centrally devise the overall business strategies to be carried out by the provincial operating branches.

We have significantly expanded the coverage and capacity of our GSM networks, enhanced the quality of our networks through optimization and improved network management. Our GSM cellular networks reach all cities, county centers, major highways and railways in our service areas. We will continue to selectively deploy GSM systems that operate in the 1800 MHz frequency band in major cities to supplement our GSM networks operating at 900 MHz frequency band. In addition, we will continue to focus on optimizing our existing networks and improve network management.

Post-paid Services and Pre-paid Services

We offer two main categories of GSM cellular services: post-paid and pre-paid services that target different consumer segments. We began to offer pre-paid services in 1999. Generally, we promote our pre-paid services to migrant population and temporary residents as well as low-end subscribers and target our post-paid services at long-term residents and mid-end subscribers in a service area.

To subscribe for our post-paid services, a customer generally needs to produce proof of local residency or a guarantee from a local resident and sign a service contract. A post-paid subscriber pays a monthly fee, per-minute usage and roaming charges. In many of our service areas, we require most post-paid subscribers to pay a deposit directly to us or to give a direct debit authorization to one of the commercial banks that collect service charges for us.

To subscribe for our pre-paid services, a customer simply purchases a SIM card with a pre-paid amount of service charges. The customer can add to the pre-paid balance by purchasing recharge cards. A customer of pre-paid services generally does not need to register with us. Pre-paid services are therefore more suitable than post-paid services for migrant population and temporary residents in a service area. In addition, pre-paid services do not have monthly fees, but carry higher per-minute usage and roaming charges. This fee structure is generally more attractive to lower-usage subscribers.

We and Unicom Group provide pre-paid services under the service brand of "Ru Yi Tong". These services are supported by intelligent networks built by Unicom Group and us. We and Unicom Group continue to expand the capacity of these networks. The intelligent networks enable us to offer nationwide roaming services and monitor in real time the account balance of pre-paid subscribers. In addition, we offer pre-paid services in some service areas that are supported by our provincial billing systems.

Subscribers and Usage

The following table sets forth selected historical information about our GSM cellular operations and our subscriber base for the periods indicated.

	As of or for the year ended December 31,			As of or for the three months ended March 31,
	1999	**2000**	**2001**	**2002**
Number of subscribers (in thousands)	4,155	12,772	27,033	30,218
Post-paid	4,082	10,601	16,489	17,013
Pre-paid	73	2,171	10,544	13,205
Estimated market share in our service areas (1)	14.2%	22.7%	28.5%	N/A
Average annual churn rate (2)	11.0%	9.5%	16.3%	N/A
Average minutes of usage per subscriber per month (3)	200.2	179.5	161.2	149.6
Average revenue per subscriber per month (in RMB)	165.8	124.3	86.3	73.8

(1) Market share in a given area is determined by dividing the number of our subscribers in the area by the total number of cellular subscribers in the area. *Source*: Ministry of Information Technology.
(2) Average annual churn rate is the rate of subscriber disconnections from our cellular network, which we have determined by dividing the sum of voluntary and involuntary deactivations during the period by the average of the number of our subscribers during the period.
(3) Average minutes of usage per subscriber per month, or MOU, is calculated by dividing the total minutes of usage during the period by the average of the number of our subscribers during the period, and dividing the result by the number of months in the relevant period.
(4) Average revenue per subscriber per month, or ARPU, is calculated by dividing the sum of cellular services revenue during the relevant period by the average of the number of our subscribers during the period, and dividing the result by the number of months in the period.

Subscriber Increase: Our subscriber count continued to grow rapidly. As of December 31, 2001, our total number of subscribers increased to 27.0 million, including 16.5 million post-paid subscribers and 10.5 million pre-paid subscribers. Our share of the cellular market in terms of total cellular subscribers in our service areas grew from 7.1% as of the end of 1998 to 28.5% as of December 31, 2001. We attracted 37.2% of the net subscriber additions in our services areas during 2001. As of May 31, 2002, the total number of our GSM cellular subscribers increased to 32.1 million. We believe that this growth was attributable to a number of factors, including:

expansion of our GSM network coverage,
improvement in the quality of our GSM networks and services,
competitive pricing of our services,
flexible and effective marketing, sales and distribution, and
improved customer care and service and our continuing focus on customer service.

Pre-paid Subscribers: The rate of increase in our pre-paid subscribers continues to exceed the rate of increase in our post-paid subscribers. As of December 31, 2001, we had 10.5 million pre-paid subscribers, representing 39.0% of our total subscriber base, up from 17.0% at the end of 2000. Pre-paid subscribers represented 58.7% of our net subscriber additions during 2001, and such number increased to 83.5% during the first three months ended March 31, 2002.

MOU and ARPU: Our average MOU and ARPU continued to decline in 2001 as the cellular penetration in our service areas increased. The decline in ARPU was attributable to expanding market penetration, an increase in the proportion of low-usage subscribers as a percentage of the total number of subscribers, an increased number of pre-paid subscribers, discontinuation of connection fees, the reduction of long distance tariffs and increasing market competition. Our pre-paid subscribers in general have lower MOUs and ARPUs compared to our post-paid subscribers. For the year ended December 31, 2001, the average MOU and ARPU were 89.9 minutes and RMB63.4, respectively, for our pre-paid subscribers, compared to 187.8 minutes and RMB94.8, respectively, for our post-paid subscribers.

Churn Rate: For the year ended December 31, 2001, our churn rate increased to 16.3% from 9.5% in 2000. Our calculation of churn rate reflects those subscribers whose services we disconnect as a result of account inactivity or payment delinquency or who switch between our post-paid and pre-paid services as well as those who switch to services of other operators.

The Chinese government has eliminated connection fees and, as competition continues to intensify, our churn rate from subscribers voluntarily discontinuing our services may continue to increase. The churn rate for our pre-paid services is generally higher than that for our post-paid services because of the migrant and temporary nature of most pre-paid subscribers. It is also difficult for us to develop and maintain customer relationships with pre-paid subscribers from whom we do not require registration. Some of our pre-paid subscribers may simultaneously subscribe to the pre-paid services of our major competitor.

Payment Delinquency: We believe payment delinquency in general is not a serious problem for our post-paid services in most of our service areas. As of December 31, 2001, the delinquency ratio for our GSM cellular services, calculated as the amount of provision for doubtful debt divided by revenue from GSM cellular services, is 2.5%, compared to 2.9% at the end of 2001. In some of our service areas we require our post-paid subscribers to deposit service charges and maintain a certain level of account balances with us or with commercial banks that collect service fees for us. We closely manage payment delinquencies through confirmation of customer address and other registration information, advance notification of inadequate deposits, close monitoring and prompt termination of services.

Tariffs

Generally we charge our post-paid cellular subscribers the following categories of tariffs: basic monthly fees, usage charges for both incoming and outgoing calls, roaming charges, and charges for value-added services. Pre-paid subscribers do not pay monthly fees but pay a higher usage and roaming charge on a per-minute basis.

The cellular tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission and provincial price regulatory authorities. The following table summarizes the present state guidance tariff rates for post-paid and pre-paid cellular services:

	Post-paid Services	Pre-paid Services
	RMB	RMB
Basic monthly fee	50	0
Basic usage charge (per minute)	0.4	0.6
Domestic roaming charge (per minute)	0.6	0.8

Source: Ministry of Information Industry.

In 1997, the Chinese government granted us preferential treatment by allowing us to reduce our tariffs by up to 10% below the state guidance tariff rates. In 1999, the Chinese government authorities further allowed us to reduce our tariffs by up to 20% below the state tariff rates in areas where China Mobile operates local analog cellular networks. This preferential treatment has helped us capture a significant number of cellular subscribers by allowing us to market our cellular services at discounted rates and continues to represent an important competitive advantage for us.

Intense competition in some service areas has resulted in tariff discounts and service promotions offered by both us and our main competitor from time to time. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, off-peak discounts or discounts for high-usage subscribers. See "Risks Relating to the Telecommunications Industry in China – New regulations or regulatory changes relating to telecommunications tariffs and other matters may adversely affect our results of operations" under Item 3.

Our main competitor in cellular services, China Mobile, introduced a number of package service plans in March 2001. Under these plans, subscribers pay a fixed monthly fee for a specified number of call minutes each month. The plans vary in the level of the fixed monthly fee, the number of specified call minutes and the tariff rates for call minutes in excess of the specified call minutes. We have also selectively introduced similar package service plans in several service areas, which generally offer 10% price discounts to the plans of our main competitor.

Wireless Data and Other Value-Added Services

We began to offer short messaging services in 2000. A total number of 1.08 billion short messages were sent by our subscribers in 2001. Such number is increasing rapidly. For the first three months of 2002, a total number of 830 million messages were sent by our subscribers. A majority of short messages sent are point-to-point messages transmitted between two subscribers. We plan to continue to promote the use of short messages as a convenient and cost effective method of business and personal communication. We have interconnected our short messaging platform with China Mobile's short messaging platform in our service areas.

On August 1, 2001, Unicom Group and we launched our nationwide wireless data services under the service brand of "Uni-Info". The Uni-Info services are presently based on a nationwide wireless information services platform. Uni-Info offers a variety of services in the categories of information and notification services, personal information management, transactions services, and games, download and other entertainment services.

We and Unicom Group cooperate with a number of national and regional content providers that supply our subscribers with Uni-Info services. We have designed a fee structure under which we earn transmission fees from the use of our services and generally retain 12-15% of application fees charged by content providers that we collect for them. In most service areas, we charge the sender a transmission fee of RMB 0.10 for each message sent and there is no charge for receiving messages.

In addition to short messaging services, we have launched wireless data services based on the wireless application protocol, or WAP, technology. We have also tested the general packet radio service, or GPRS, technology in several cities. We will continue to explore and monitor the market potential of the GPRS and other wireless data technologies as they develop in China.

We also offer a number of other value-added services to our cellular subscribers, including caller identification, call waiting, call forwarding and voice mail services. We are also developing cellular virtual private network services, known as cellular VPN services.

CDMA Cellular Services

Our controlling shareholder, Unicom Group, has the exclusive license to offer second-generation CDMA cellular services in China. It has constructed CDMA networks nationwide and completed the initial phase of the construction at the end of 2001. We have leased capacity on these networks and started to operate these networks in our service areas. After a trial period of three months, we formally launched our CDMA services in April 2002 in our service areas that target mid- to high-end cellular subscribers.

Unicom Group's Construction of CDMA Networks

Unicom Group has the exclusive right to offer CDMA services in China. In May 2001, through its subsidiary Unicom New Horizon Mobile Telecommunications Co. Ltd., or Unicom New Horizon, Unicom Group awarded supply contracts to a number of foreign and domestic equipment suppliers, and began to build CDMA networks nationwide. The networks are expected to be expanded in phases. The number and size of each phase will depend upon actual and forecast CDMA subscriber growth and anticipated capacity requirements. In the first phase of the construction, which was completed by the end of 2001, the networks achieved a nationwide coverage of approximately 330 cities in China, with a total capacity of approximately 15.8 million subscribers. The portion of this network within our cellular service areas has a total capacity of approximately 9.8 million subscribers.

Through a competitive bidding process, Unicom Group was able to obtain highly attractive terms for its CDMA equipment supply contracts. The construction of its CDMA networks utilizes to a significant extent the existing GSM infrastructure, such as base stations, switching centres and transmission capacity. Since the initial phase of the CDMA networks is designed to achieve an extensive nationwide coverage, we believe that Unicom Group will be able to further lower its per subscriber cost when expanding the capacity of the CDMA network. Our technical staff have been closely involved in the planning and design of the CDMA network, as well as the equipment selection process and in overseeing the construction of the CDMA network.

Based on our estimates as of March 31, 2002, the estimated capital expenditures incurred for the first phase of the network amounted to RMB 20.94 billion, including approximately RMB 12.87 billion incurred in our cellular service areas, or approximately RMB 1,325 per subscriber.

The capital expenditures of Unicom Group on CDMA networks were substantially financed by the long-term bank loans borrowed by its subsidiary Unicom New Horizon, which obtained credit facilities in a total amount of RMB17 billion from two Chinese banks with maturity periods ranging from 4 to 5 years. The interest rates are 5.94% and 6.03%, which will be periodically adjusted in accordance with the prevailing interest rate published by the People's Bank of China. Such bank loans are unsecured and guaranteed by Unicom Group. As of March 31, 2002, approximately RMB 10.96 billion of bank loans have been drawn down by Unicom New Horizon for the construction of nationwide CDMA networks.

Our Leasing of CDMA Networks from Unicom Group

Our wholly owned operating subsidiary, China Unicom Corporation Limited, entered into a lease agreement with Unicom Group and its subsidiary Unicom New Horizon, dated November 22, 2001, which sets forth the principle terms of the network capacity leasing arrangement between us and Unicom Group. The leasing arrangement will be for an initial term of one year, renewable at our option. We lease network capacity from Unicom Group and operate these CDMA networks in our cellular service areas on an exclusive basis and receive all revenue generated from the operation. We may terminate the leasing arrangement upon giving at least six months' prior notice to Unicom Group.

The term of the lease is for an initial period of one year, commencing in January 2002, and may be renewed for further one year terms at our option. We lease network capacity in our service areas on a quarterly basis during the first year, and on an annual basis after the first year, with the ability to request for different lease capacity for each such quarterly or annual leasing period. The initial phase of construction was completed by the end of 2001 with a total capacity of 15.8 million subscribers nationwide and 9.8 million subscribers in our service areas. The actual pace of network expansion by Unicom Group will depend on our demand for additional capacity. We have leased capacity for two million subscribers during the first quarter of 2002 and capacity for four million subscribers during the second quarter of 2002. We lease capacity for four million subscribers for the third quarter of 2002.

Under the leasing arrangement, we are required to make semi-annual lease payments to Unicom Group for the actual amount of network capacity we lease. The lease fee will be charged on a per line basis and determined so as to enable Unicom Group to recover its total investment in constructing the network in seven years, together with a rate of return on its investment of 8%. The quarterly lease payment for the first phase of the CDMA networks has been estimated to be approximately RMB 61.4 per subscriber line leased, subject to our final verification of the network construction cost of Unicom Group.

In addition to leasing network capacity, we will also have the option, exercisable at any time during the lease period and for an additional year thereafter, but not later than seven years following the commencement of the lease, to purchase the CDMA network in our cellular service areas. The acquisition price will be calculated so that Unicom Group will achieve an 8% rate of return on its investment in the network, including lease payments already received from us, up to the date of acquisition of the network. Also see "Related Party Transactions -- Leasing of CDMA Network Capacity" under Item 7.

Services, Tariffs and Promotion

The CDMA services we offer in our cellular service areas include basic voice services, mobile data services and value added mobile services such as call forwarding and voicemail, caller identity display and short messaging services. We currently do not offer prepaid CDMA services. We have started trial operation of CDMA networks that have been upgraded with CDMA IXRTT technology in four cities in our cellular service areas.

As of March 31, 2002, we had 568,000 subscribers to our CDMA services, including approximately 380,000 subscribers who were subscribers on a trial CDMA network known as the Great Wall network, which was operated by China Telecom and the Chinese army and transferred to us. The average MOU and ARPU was 226.4 minutes and RMB 81.8 per month, respectively, for our CDMA services in the first three months ended March 31, 2002. The ARPU per month for those newly added subscribers other than those former subscribers on the Great Wall networks was RMB 119.6 per month for the first three months of 2002, compared to RMB 73.8 per month for our GSM subscribers for the same period. The number of our CDMA subscribers increased to 785,000 as of May 31, 2002.

The initial launch of our CDMA services has been significantly hindered by a lack of handset variety and supply and high handset prices, partly due to inadequate commitment from CDMA handset suppliers. In order to secure a greater commitment from those suppliers, we and Unicom Group have agreed to purchase a total of 500,000 CDMA handsets from several suppliers. These purchases are made through Unicom Guomai Communications Co., Ltd., or Guomai, a company listed on the Shanghai Stock Exchange and our 58.88% indirectly owned subsidiary. See "Related Party Transactions – Other Related Party Transactions" under Item 7.

The tariff rates for our CDMA services are generally the state guidance rates for cellular services without the 10% discount we are permitted to adopt. We have offered various incentive programs to attract high-usage customers. During the initial launch of our CDMA services, we have also selectively offered CDMA subscribers credit on our future service charges in an amount equal to their handset purchase cost, which credit is only usable within a period of time after the initiation of their CDMA services.

See "Risk Factors – Risks Relating to Our Business – Our new CDMA services are unproven in China, have experienced some difficulties in gaining market acceptance since their launch in January 2002 and may fail to gain broad market acceptance and achieve profitability" under Item 3.

Long Distance Services

We offer international and domestic long distance services in China based on both the traditional circuit switched telephony standard and the more recent IP telephony standard. Our long distance services are based on our advanced, uniform nationwide network system. We leverage our ability to bundle our long distance services with a broad range of services to target different customer segments.

The following table sets forth the total number of out-going call minutes for our long distance services for the periods indicated.

	As of or for the year ended December 31,	
	2000	**2001**
	(in billions)	
Circuit switched telephony:		
Domestic	0.23	2.64
International	0.01	0.08
Total	0.24	2.72
IP telephony:		
Domestic	0.62	3.52
International	0.07	0.17
Total	0.69	3.69

Circuit Switched Telephony Services

We focus on corporate customers in providing circuit switched long distance services, but also offer a variety of services to other customer segments as well. We offer post-paid long distance services to those business and residential customers who register their telephone numbers with us. They can access our services by dialing a prefix of "193". We also distribute pre-paid long distance calling cards that purchasers can use to access our services by dialing a prefix of "193300". For some corporate and government customers, we also offer our circuit switched long distance services over dedicated lines, frequently as part of our bundled offerings of long distance and data services. We also offer long distance services to our cellular subscribers.

The following table sets forth selected information about our circuit switched long distance telephony services for the periods indicated.

	As of or for the year ended on December 31,	
	2000	**2001**
Number of cities reached	226	304
Number of subscribers (in million)	0.43	4.53
Minutes of outgoing long distance calls (in billion) [(1)]	0.24	2.72
Market share of outgoing long distance call minutes	0.40%	4.30%
Minutes of incoming international calls (in billion)	0.23	1.16

(1) Source: Ministry of Information Industry. In calculating market share in 2001, the total minutes of outgoing long distance calls include those of China Telecom and us.

As of May 31, 2002, our outgoing circuit switched long distance calls totaled 2.36 billion minutes for the first five months of 2002, including 2.30 billion minutes of domestic long distance calls and 0.06 billion minutes of international long distance calls (including calls to Hong Kong, Macau and Taiwan).

Tariff rates for circuit switched long distance telephony services of incumbent fixed line operators are set by the Chinese government. Other fixed line operators, including us, can adopt tariffs that are different from the state tariff rates upon approval by the Ministry of Information as long as they do not offer services at tariff rates below cost. Effective on February 21, 2001, the government has adjusted the state tariff rates of a number of telecommunications services, including circuit switched long distance telephony services. The following table sets forth the state tariff rates for circuit switched long distance telephony services before and after such adjustment and our present tariff rates:

	State Tariff Rates (RMB) [(1)(2)]		Our Tariff Rates [(1)]
	Before Adjustment	**After Adjustment**	
Circuit Switched Domestic Long Distance:			
Intra-provincial less than 300 km	0.50 per minute	Unified flat rate of 0.07 per six seconds	0.06 per six seconds
Intra-provincial more than 300 km	0.60 per minute		
Inter-provincial less than 800 km	0.80 per minute		
Inter-provincial more than 800 km	1.00 per minute		
Circuit Switched International Long Distance:			
To Hong Kong, Taiwan and Macau	5.00 per minute	0.20 per 6 seconds	0.18 per six seconds
To all other international destinations	5.30-15.00 per minute	0.80 per 6 seconds	0.72 per six seconds

(1) Discount rates may apply to calls made during off-peak hour, which are set by operators. For example, we offer discount rates of RMB 0.03 or 0.04 per six seconds for domestic long distance calls made during different off-peak hours.
(2) *Source*: Ministry of Information Industry.

For a discussion on the impact of the tariff adjustments that became effective on February 21, 2001 on our results of operations and financial condition, see “Adjustment of Tariffs, Interconnection Settlement and Spectrum Usage Fees” under Item 5.

IP Telephony Services

We began offering domestic and international long distance telephony services using IP telephony technology in June 1999. We offer our IP telephony services based on a manageable IP network configuration to enhance service quality.

The following table sets forth selected information about our IP telephony services for the periods indicated.

	As of or for the year ended December 31,		
	1999	**2000**	**2001**
Number of cities reached	12	231	320
Minutes of outgoing IP telephony calls (in billion) ...	0.08	0.69	3.69
Market share of outgoing calls minutes (1)	53%	23%	18%
Minutes of incoming international calls (in billion) ...	0.02	0.05	0.07

(1) *Source:* Ministry of Information Industry.

As of May 31, 2002, our out-going IP telephony long distance calls totaled 2.25 billion minutes for the first five months of 2002, including 2.20 billion minutes of domestic long distance calls and 0.05 billion minutes of international long distance calls (including calls to Hong Kong, Macau and Taiwan).

The government in February 2001 ceased regulatory control of tariffs for IP telephony long distance calls and allowed operators to set their own rates. Most providers of IP telephony services, including us, significantly lowered their international long distance tariffs shortly after the tariffs were deregulated. The following table sets forth the state guidance tariff rates for IP telephony long distance calls before the tariff adjustment and our present tariff rates for our IP telephony services using the “17910" access code.

	State Tariff Rates (RMB)(1) Before Adjustment	**Our Tariff Rates (RMB) After Adjustments**
IP Telephony Domestic Long Distance	0.30 per minute	0.30 per minute
IP Telephony International Long Distance		
To Hong Kong, Taiwan Macau	2.5 per minute	1.5 per minute
To U.S. Canada.	4.8 per minute	2.6 per minute
To other international destinations	4.8 per minute	3.6 per minute

(1) *Source:* Ministry of Information Industry.

Leased Line Services

We began to lease transmission lines to large business customers and other telecommunications operators in 2000. Our leased line services provide customers with, dedicated digital links directly connecting customer sites. As of December 31, 2001, we had a total leased bandwidth of an equivalent of 2350 x 2 Mbps circuits, representing a 56 fold increase from 42 x 2 Mbps circuits at the end of 2000.

Leased line tariffs are primarily based on the bandwidths of the lines leased and the distance of transmission. Leased line tariff were reduced significantly in March and September 1999 and again by the tariff adjustment effective on February 21, 2001.

The following table sets forth state tariff rates for monthly fees of selected types and bandwidths of leased lines and selected distance categories before and after the adjustments that become effective on February 21, 2001:

	State Tariff Rates (RMB per month)				
	Before Adjustment			After Adjustment	
	Local (intra-district)	Long distance (intra-province)	Long distance (inter-province over 800 km)	Local (intra-district)	Long distance
DDN Line (2 Mbps)	14,360	27,960	50,000	6,000	12,000
Digital Line (34 Mbps) . . .	75,310	183,780	410,980	16,000	47,000
Digital Line (155 Mbps) . .	271,120	661,610	1,479,530	44,000	132,000

Source: Ministry of Information Industry.

Similar to circuit switched long distance telephony services, operators other than incumbent operators, including us, can adopt tariffs that are different from the above state tariff rates upon approval by the Ministry of Information Industry as long as they do not offer services at tariff rates below cost. We generally offer leased line services at a 10% discount to the state tariff rates.

Sale and Lease of Other Network Elements

We have substantially completed the construction of our nationwide transmission network. See "— Networks — Transmission Network". We have started to offer some network elements such as optic fibers or fiber channels for lease to other telecommunications operators or corporate customers.

Data and Internet Services

We launched our data and Internet services throughout China in 2000. Similar to our long distance services, our data and Internet services are supported by our advanced, unified nationwide network system. We target our integrated offerings of long distance, data and Internet services to high-usage corporate customers.

The following table sets forth certain information for our data and Internet services for the periods indicated.

	As of or for the Year Ended December 31,	
	2000	**2001**
Data Services		
Subscriber ports (in thousands)	273	802
Internet Services		
Dial-up subscribers (in thousands)	41.5	3,544
Dedicated access subscribers	377	4,555

Data Services

We presently provide data services in 273 cities in China. We target high volume business or government users of integrated voice, data and video communications and offer them data services as part of our bundled offerings of long distance, data and Internet services. As of December 31, 2001, the total leased bandwidth of our data services was 862x2 Mbps.

Our data service offerings mainly consist of broadband, managed data services, including:

- Frame relay, or FR services, which provide cost effective data communications services linking remote business sites using frame relay technology, and

- Asynchronous transfer mode, or ATM services, which employ asynchronous transfer mode, or ATM, technology and are able to handle high bandwidth, integrated voice, video, data and Internet traffic.

Virtual private network services, or VPN services, are an important aspect of our data services. A virtual private network has the ability to link customers' offices nationwide as if they were part of a private network with dedicated lines. VPN services are based on a shared network structure, resulting in reduced telecommunications costs. VPN services are managed by us and, unlike private networks, do not require substantial maintenance by our customers. The advanced features and uniform design of our data and transmission networks enable us to provide high quality nationwide VPN services which can be tailored to specific customer needs.

We provide data services through an advanced, unified nationwide network system, the backbone of which is our advanced nationwide fiber optic transmission network. This network is the second largest fiber optic transmission network in China. We have also built metropolitan area networks in 303 cities throughout China. These networks provide local transmission capacity for our different services. See "— Networks — Transmission Network".

We believe that our ability to offer integrated access to customers' premises is important to the success of our data services. We are building integrated access networks linking major office buildings to our networks in major cities. See "— Networks — Long Distance, Data and Internet Networks".

Our charges for FR services include up-front charges for installation materials and testing, a monthly port fee and a monthly circuit fee. The following tables set forth our monthly port fee and monthly circuit fee for data services of selected bandwidths and selected distance categories.

Bandwidth	Our Tariff Rates (RMB per month)			
	Port Fee	Circuit Fee		
		Local (intra-district)	Domestic long distance	International long distance (outside of Asia)
64kbps	234	495	1,530	13,140
256kbps	360	720	1,980	17,640
512kbps	450	900	2,250	20,790
2Mbps	900	1,350	3,600	35,100

Internet Services

We offer the following Internet services:

Dedicated Internet Access. We began to offer business customers high speed Internet access through dedicated lines in 2000. As of December 31, 2001, we had a total of 4,555 subscribers for dedicated Internet access. We seek to bundle this service with voice and data services to provide integrated communications solutions to our business customers.

Dial-up Internet Access. We began to offer dial-up Internet access services to customers in 2000. As of May 31, 2002, the total number of our dial-up subscribers increased to 4.23 million.

Co-location and Web Hosting. We provide co-location, web hosting and other Internet data center services. Our principal customers at present are Internet service providers, other businesses and government agencies.

The following table sets forth selected historical information about our Internet service operations and our subscriber base for the periods indicated.

	As of December 31,	
	2000	2001
Number of cities reached by our dial-up Internet access services	220	276
Number of cities reached by our dedicated Internet access services	220	255
Number of subscribers of dial-up Internet access services (in thousands)	415	3,540
Number of subscribers of dedicated Internet access services	377	4,555
Market share of Internet subscribers(1).	2.6%	20.4 %

(1) Source: Ministry of Information Industry.

The network code for our nationwide dial-up Internet services is "165". We distribute dial-up Internet access services through a variety of methods. A customer can pre-register for our dial-up services or purchase dial-up passwords with a pre-paid amount of on-line charges which can be used nationwide to access the Internet. We also have arrangements with some commercial banks that allow the banks' customers to access our dial-up services using their bank account numbers, with on-line charges being automatically debited from their bank accounts. Our cellular subscribers can also access our dial-up services using their cellular account numbers.

Our tariff charges for dial-up access include a network usage fee that varies from RMB 1.8 to 2.7 per hour for local access under different service plans and a fixed telecommunications fee of RMB 0.02 per minute. In addition, a monthly fee may also apply depending on the service plan .

Our tariff charges for dedicated Internet access include network usage fees and telecommunications charge. Telecommunications charge is based on the relevant tariff for the particular type and bandwidth of leased lines used to access the Internet. The following table summarizes the monthly network usage fees for selected bandwidths denoted as “R”.

	Network usage fees (RMB per month)
R#64Kbps	2,700-3,600
128Kbps<R#256Kbps	4,800-6,600
1024Kbps<R#2Mbps	18,000-27,000
20Mbps<R#34Mbps	165,900-195,200
45Mbps<R#100Mbps	428,400-504,000

Paging Services

We are the largest paging operator in China. We believe that we have competitive advantages over other paging operators in China in terms of subscriber base, brand name, network quality and coverage and our ability to offer nationwide roaming services and value added services.

Subscribers and ARPU

The following table sets forth selected operating data relating to our paging businesses for the periods indicated.

	As of or for the year ended December 31,		
	1999	**2000**	**2001**
Paging subscribers (in million)	43.5	44.5	32.91
Market share(1)	59%	54%	N/A
Average revenue per subscriber per month (in RMB)(2)	18.3	15.3	9.4

(1) Market share for 1999 and 2000 were determined by dividing the number of our paging subscribers by the number of paging subscribers in China. Market share for 2001 is unavailable due to lack of industry information.

(2) Average revenue per subscriber per month is calculated by dividing the sum of paging services revenue during the relevant period by the average of the number of subscribers during the period and dividing the result by the number of months in the period.

In 2001, the total number of our paging subscribers declined by 11.6% from 44.5 million as of December 31, 2000 to 32.9 million as of December 31, 2001. The decline was mostly attributable to paging subscribers switching to cellular services as well as intense competition in the paging sector. The churn rate of our paging services increased from 28.4% in 2000 to 57.6% in 2001. The total number of our paging subscribers decreased to 24.9 million as of May 31, 2002.

Our paging subscribers are primarily in urban areas. We believe that growth opportunities still exist in smaller cities, townships and rural areas and in western China. We plan to increase our promotional efforts in these areas to attract new paging subscribers.

In 2001, our average revenue per paging subscriber per month decreased to RMB9.4 from RMB15.3 in the year of 2000. The main reason for this decrease was the decline in tariffs caused by continuing intense competition in the paging sector. We intend to promote our services as the premium paging services and compete with other paging operators on the basis of our competitive strengths. We also plan to further consolidate and streamline our paging networks and reduce maintenance and operating costs in order to increase the profitability of our paging business.

Value-Added Paging Services

We offer a range of paging-based wireless information services, including stock quotes, flight information, weather and news. We continue to develop our paging information services to target different subscriber segments. We are also working with paging terminal vendors to develop more sophisticated paging-based information services that utilize specially designed, relatively inexpensive wireless devices. We provide two-way paging services in Shanghai and several other cities and continue to monitor this technology and its market potential.

Tariffs

The Telecommunications Regulation promulgated in 2000 officially ceased government tariff regulation on paging services. Operators are now allowed to set their own tariff rates. The tariff rates in some of our paging service areas have declined significantly over the last several years.

Cross-Selling with Our Cellular Business

We offer services that integrate our paging networks with the short messaging platform of our cellular networks. The integrated paging and short messaging service allows a user to receive messages regarding cellular calls on his or her pager and to receive paging messages on the cellular handset. This integrated service encourages paging users who are transitioning to cellular services to continue to use our paging services and to select our cellular services over those of our competitor. We continue to leverage our large paging subscriber base and offer incentives to those paging subscribers who are switching to cellular services to become our cellular subscribers.

Integration of the Operations of Guoxin Paging with Unicom Paging

Unicom Group holds a controlling interest in a nationwide paging company operating under the marketing name of “Unicom Paging”. We operated our paging business through Guoxin Paging under the marketing name of “Unicom Guoxin Paging”. As of December 31, 2001, Unicom Paging, the second largest paging operator in China, had 3.2 million paging subscribers, while Guoxin Paging, the dominant paging operator in China, had 32.9 million paging subscribers. Unicom Paging has a nationwide paging network and competes with Guoxin Paging in many service areas. In order to facilitate resource sharing and reduce competition between the two paging companies, we integrated some of the management and operations of Guoxin Paging with those of Unicom Paging in 2001. After the integration, Guoxin Paging and Unicom Paging jointly market their services under the marketing name of Unicom Paging and share some management and sales and marketing personnel. Their networks and service offerings remain separate from each other and they otherwise remain separate businesses.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our telecommunications networks to other networks. Our cellular and long distance networks interconnect with Unicom Group's cellular networks. Under current arrangements, settlement between Unicom Group and us is based on an internal settlement standard that takes into account either the internal costs of the relevant networks or the government standard applicable between third-party operators, whichever is the more favorable to us.

Unicom Group's cellular networks, our cellular networks and our long distance networks interconnect with the public switched telephone networks of China Telecom and China Netcom. Unicom Group's cellular networks and our cellular networks also interconnect with China Mobile's cellular networks. Our Internet network interconnects with the Internet networks of China Telecom and China Netcom. We continue to encounter some difficulties in the execution of our interconnection arrangements with other operators in some service areas.

In March 2001, the Ministry of Information Industry issued regulations relating to settlement between telecommunication networks. These new regulations contain provisions regarding revenue sharing methods and settlement mechanisms for interconnection arrangements between us and other operators. These interconnection arrangements under the new regulations are described in "— Regulatory and Related Matters — Interconnection Arrangements" under Item 4.

Unicom Group supplemental and updated its previous interconnection arrangements with China Telecom and China Mobile with the following agreements in 2001. It is uncertain how existing arrangements between Unicom Group and China Telecom will apply to the newly formed China Netcom.

- Framework interconnection and settlement agreement between Unicom Group and China Telecom, dated September 30, 2001.
- Interconnection and settlement agreement between Unicom Group and China Telecom relating to the interconnection between Unicom Group's cellular networks and China Telecom's telecommunications networks, including its local fixed line telephony networks, domestic long distance telephony networks, international telephony networks and IP telephony network, dated September 30, 2001.
- Interconnection and settlement agreement between Unicom Group and China Mobile relating to the interconnection between Unicom Group's GSM and CDMA networks and China Mobile's GSM networks, dated November 14, 2001.

Unicom Group has also entered into the following interconnection arrangements, which equally apply to us.

- Interconnection and settlement agreements between Unicom Group and CNCL relating to interconnection of local fixed-line telephony networks, cellular networks and IP telephony networks dated November 13, 2001 and November 22, 2001.
- Interconnection and settlement agreement between Unicom Group and China Railcom relating to interconnection of fixed line telephony networks, domestic long distance networks and data networks dated January 25, 2002.

#	Agreement among major Internet operators, including Unicom Group, and three national Internet switch centers on Internet network interconnections.

Roaming

We have entered into roaming arrangements with Unicom Group. In addition, as of December 31, 2001, our cellular subscribers can roam on cellular networks in Europe, North America and other Asian countries and regions through Unicom Group's international roaming agreements with 147 operators in 56 countries. Unicom Group has agreed to arrange for us to participate in its future international roaming arrangements.

A cellular subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long distance tariffs. Under our roaming agreement with Unicom Group, our subscribers who roam on Unicom Group's networks are charged for each call made or received. We collect this tariff, retain RMB0.20 and pay the remaining amount to Unicom Group. On the other hand, when Unicom Group's subscribers roam on our networks, Unicom Group collects the roaming tariff, retains only RMB0.04 and pays us the remaining amount.

The following table is a summary of roaming settlement between Unicom Group and us:

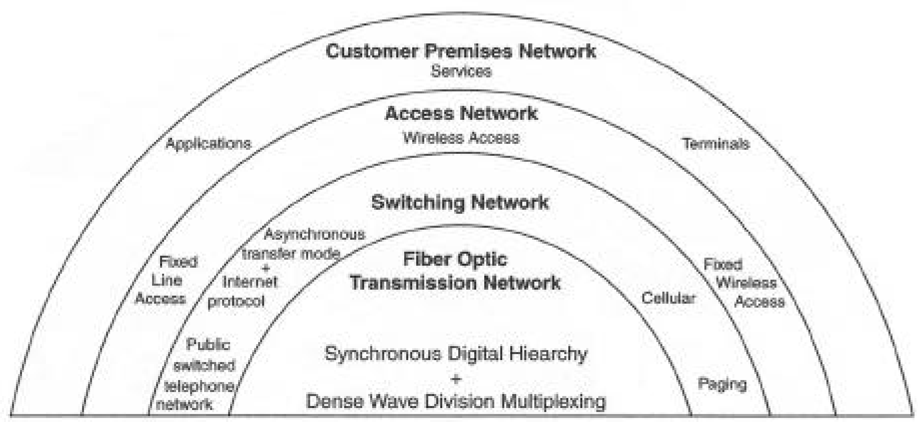
For our subscribers roaming on Unicom Group's networks (RMB)	Roaming Tariff	Paid to Unicom	Retained by Us
GSM pre-paid users	0.80	0.60	0.20
GSM post-paid users	0.60	0.40	0.20
CDMA users	0.60	0.40	0.20
For Unicom Group's subscribers roaming on our networks (RMB)	**Roaming Tariff**	**Paid to Unicom**	**Retained by Us**
GSM pre-paid users	0.80	0.76	0.04
GSM post-paid users	0.60	0.56	0.04
CDMA users	0.60	0.56	0.04

With respect to international roaming, we settle roaming revenue with international operators through Unicom Group in accordance with roaming agreements between Unicom Group and each of the international operators.

Networks

We operate an advanced network system to support our integrated operations. The backbone of the system is a nationwide fiber optic transmission network, which serves as the common platform for our cellular, long distance, data, Internet and paging networks. In addition, we continue to develop management and network support systems to enhance the quality and reliability of our networks and improve our customer service and operating efficiency. We utilize a relatively centralized network planning and equipment selection process, which ensures uniform nationwide design and network compatibility.

The following diagram illustrates the structure of our network system.



Transmission Network

We operate an advanced nationwide fiber optic transmission network. As of December 31, 2001, our fiber optic transmission network reached 303 cities with a total cable length of 333,000 km, of which long-distance backbone transmission network accounted for 78,000 km.

Our fiber optic transmission network is designed for broadband capacity with superior security and reliability, which deploys:

#	bi-directional synchronous digital hierarchy, or SDH, architecture with four-fiber ring, a self-healing system that allows for instantaneous rerouting and minimizes down time in the event of a fiber cut; and

#	dense wave division multiplexing, or DWDM, technology, a means of increasing transmission capacity by transmitting signals over multiple wavelengths through a single fiber.

Our SDH fiber rings have transmission capacities of 2.5 Gbs in most routes and 10 Gbs for the fiber ring that covers the southern coastal areas of China. During the construction of our transmission network, we sought to prepare for additional cables or fibers in the future when capacity expansion and upgrades are needed. The transmission capacity can also be increased by many times using DWDM technology. We deploy mainly transmission equipment and technology supplied by Lucent, Nortel and Alcatel for our backbone transmission network.

Concurrent with the construction and expansion of our domestic backbone transmission network, we also seek to expand our international bandwidth. In December 2001, we participated in the Asia Pacific Cable Network No. 2 Project, a trans-pacific submarine cable project known as APCN 2. We have obtained 4×155 Mbps half-circuit capacity by the end of 2001. This network connects major countries and regions in eastern Asia and south eastern Asia, and can be linked to North America through Japan or South Korea. In addition, we are constructing a cable landing station in the city of Qingdao and plan to connect it to pacific submarine cables.

We are also building metropolitan area networks in 119 cities throughout China. These networks provide local transmission capacity that supports our different services.

Cellular Networks

A cellular network consists of:

- cell sites, which are physical locations, each equipped with a base station that houses transmitters, receivers and other equipment used to communicate through radio channels with subscribers' cellular handsets within the range of a cell;
- base station controllers, which connect to, and control, the base stations;
- mobile switching centers, which control the base station controllers and the routing of telephone calls; and
- transmission lines, which link the mobile switching centers, base station controllers, base stations and the public switched telephone network.

While we own most of the cellular transmission network at the local and provincial level, we lease a portion of our inter-provincial transmission capacity for our cellular networks. We also use our own backbone fiber optic transmission network to provide transmission capacity for our cellular networks.

GSM Cellular Networks

The following table sets forth selected information regarding our cellular networks as of the dates indicated.

	As of December 31,		
	1999	2000	2001
Network subscriber capacity (in thousands of subscribers)	6,642	19,184	37,464
Base stations	7,480	14,346	27,877
Base station controllers	314	462	259
Mobile switching centers	126	185	800

Currently our cellular network is mainly based on GSM technology that operates at 900 MHz. We have deployed GSM technology that operates at 1800 MHz in some major metropolitan areas to supplement the capacity of our existing cellular network. We have the right to use 6 x 2 MHz of spectrum in the 900 MHz frequency band and 10 x 2 MHz in the 1800 MHz frequency band for our GSM network.

Our cellular networks are supported by an advanced SS7 signaling system, which fosters efficient use of network capacity, reduces call set up time and enhances transmission capabilities. We have also installed intelligent networks that enable us to provide prepaid services and a wide range of call features and value-added services. The total capacity of our intelligent networks reached 37.5 million users as of December 31, 2001.

CDMA Cellular Networks

Unicom Group completed the construction of the first phase of its nationwide CDMA network at the end of 2001. We have leased a portion of the capacity of its network in our cellular service areas and have the exclusive right to operate its network in those areas. The CDMA networks share some of the infrastructures of the existing GSM network, such as base stations, mobile switching centers and transmission capacity. The first phase of the CDMA network in our cellular service areas has a total capacity of 9.8 million subscribers. We have the right to use 10x2 MHz of spectrum in the 800 MHz frequency band for our CDMA services.

Long Distance, Data and Internet Networks

We significantly expanded the coverage of our long distance, data and Internet networks in 2001. By the end of 2001, our long distance network reached 304 cities, while the coverage of our Internet networks, including our IP telephony networks, expanded to 276 cities throughout China.

Long Distance Network. Our circuit switched long distance network is based on a flat architecture with only three layers. It also uses the latest switching technology. Our long distance network is supported by a nationwide billing system and an intelligent network. Our cellular subscribers can access these services directly through our cellular networks, but our other customers typically access our long distance telephony, IP telephony and Internet services through the public switched telephone networks of China Telecom and China Netcom.

Data and Internet Networks. Our broadband data and Internet networks utilize a unified IP and ATM design, which is particularly suited for real-time, multimedia applications such as video and voice. ATM switches perform high-speed switching of voice and data traffic and minimize time delay and congestion. They can also prioritize applications that least tolerate time delay, such as telephony and video, over less time-sensitive applications such as e-mails and file transfer.

Internet Network. Our Internet network, called Uninet, is also centrally designed and has a nationwide uniform architecture. It is supported by a nationwide, advanced billing system that facilitates roaming access and delivery of virtual ISP services and other value added services.

Integrated Access Networks. We believe that the key to the success of our data services is our ability to offer integrated access to customers' premises. We are building integrated access networks in 119 cities throughout China. We focus the construction of our access networks on linking major office buildings to our metropolitan area transmission networks. We have linked over 11,000 major office buildings throughout China to our networks as of December 31, 2001. We rely mainly on fiber optic cables to link office buildings to our networks and have received permission to offer narrow-band wireless access at the 3.5 GHz frequency band in several cities on a trial basis.

Paging Networks

Our paging network system is comprised of a national paging network, provincial paging networks and local paging networks. Most of our subscribers belong to provincial or local networks. As of December 31, 2001, our total paging network capacity was 32.9 million subscribers, which we believe is adequate. We own most of the transmission lines used for our paging network and lease some transmission lines.

We have been allocated with seven frequency points by the Ministry of Information Industry for our national network and various spectrum usage rights for our provincial and local networks, all in the 150

MHz and 280 MHz frequency bands. We believe our spectrum resources are sufficient to accommodate potential subscriber growth.

Integrated Management and Network Support Systems

We have developed various management and network support systems to support our various networks. Our customer service, billing and information systems are integrated into various subsystems and share a common customer information database. In addition, we are developing an integrated information and management system, which includes office automation system, professional management system and enterprise resource planning systems.

Marketing, Sales and Distribution

We centrally plan our nationwide marketing and sales strategies, but the implementation of these strategies is carried out at the provincial level by operating branches tailored to their specific markets.

Marketing

We focus on developing a superior brand image for our company that conveys our strengths in high quality services, nationwide coverage, integrated offerings, advanced technology and customer focus. We market all of our services under the China Unicom brand name. Our service centers are designed to showcase our company and promote our products and services to our customers.

GSM services: We tailor our GSM service to different GSM market segments with our post-paid and pre-paid services. We continue to optimize our networks, improve service quality and introduce new value added services to attract post-paid subscribers and at the same time, address the lower-end market with pre-paid services.

CDMA services: We promote our CDMA services as high quality, "green", premium services and target these services at mid- to high-end cellular subscribers. We focus on promoting the advantages of CDMA technology, including better voice quality, lower dropped-call rates and lower handset radio transmitting power. We also market this new service as part of our effort to build our overall brand image.

Long distance, data and Internet services: For high usage customers, such as financial institutions, large corporations and government entities and other Internet service provider, we focus on providing them with integrated and cost-effective solutions that bundle circuit switched long distance, data and dedicated Internet access services. For residential customers, we focus on distributing calling cards for our circuit switched and IP telephony services and our Internet dial-up services.

Paging Services: We focus on the profitability of our paging business and intend to further promote paging-based information and other value-added services. We promote our information services by tailoring them to the requirements of specific customer segments and continue to promote the advantages of paging services, such as its low expense, extensive coverage and long battery life.

Sales and Distribution

Customer Segmentation: We have two main categories of customers: institutional customers, mainly comprising corporate and government customers, and individual customers. We have set up dedicated direct sales and service departments for institutional customers, both at our headquarters and at our provincial and local branches. We focus on promoting our bundled solutions and priority services to these institutional customers. For individual customers, we conduct our sales through our own service centers and the retail outlets of independent sales agents.

Distribution Network: We have developed a nationwide distribution network of about 41,000 service centers and retail outlets, of which around 3,500 are owned by us and the others are owned by independent agents or distributors. We rely on a multi-level distribution system in many service areas, in which our top-level distributors further distribute to lower level distributors and sales agents. The independent sales agents operate the majority of the total number of retail outlets located throughout China. Many of these sales agents also distribute services of our competitors. We also use Guoxin Paging's nationwide network of sales outlets to distribute our cellular, long distance and IP telephony services.

Strategic Cooperation with China Post: Our controlling shareholder, Unicom Group, entered into a strategic cooperation agreement with China Post in February 2001. This arrangement allows us to supplement our existing distribution network with China Post's extensive nationwide network. China Post also provides billing, collection and other services to our customers. The arrangement uses a revenue-based commission structure for most services. We and China Post have also agreed to use each other's services and offer each other preferential treatment. We have entered into provincial-level cooperation agreements with China Post in our service areas. As of December 31, 2001, China Post has started to distribute our services at over 9,400 outlets.

Service Bundling and Cross-Marketing: A key element of our sales and distribution strategy is to promote our strengths as a provider of a broad range of integrated services. This strategy is implemented by our service centers and independent sales agents who distribute and support our various product offerings. For example, they cross-sell our long distance services to our cellular subscribers and our integrated paging and short messaging services to our cellular and paging customers.

Customer Service

We have focused on customer care and services since our establishment as a new, competitive operator. We have taken a number of steps that we believe have improved the standard of customer service in the telecommunications industry in China. We have adopted uniform customer service procedures nationwide and continue to improve management of customer service operations and training of customer service representatives. We also continue to invest in information systems that enable or facilitate prompt and high quality customer services.

Our customer care and service centers are centrally managed and can be accessed by our customers by dialing a nationwide hotline number "1001". The hotline provides one-stop services for all of our products. We continue to improve our "1001" hotline system. We provide priority services to institutional customers and high-usage individual customers, such as designated customer representatives, delivery services and periodic visits.

Billing and Collection

We are able to leverage on our strengths as an integrated service provider to offer integrated billing and collection services. For example, we provide our business customers a single bill covering multiple services for ease of payment. We also integrate the billing systems for different services and distribute unified recharge cards that can be used to recharge various pre-paid services, including pre-paid cellular services, long distance telephony services and Internet dial-up services.

Cellular Services: Generally, we require individual subscribers to settle their accounts on a monthly basis. Many of our post-paid cellular subscribers pre-deposit their service charges with us or commercial banks or China Post that collect payment for us. We offer a certain level of credit to these subscribers in some service areas. Subscribers may pay in person at our service centers, retail outlets of our sales agents, branches of China Post, or by direct debit at some commercial banks. We generally disable a post-paid subscriber from making outgoing calls if the account is more than 30 days overdue and terminate the account if it is overdue for more than three months after that. Payment delinquency generally does not occur for our pre-paid GSM services.

Long Distance, Data and Internet Services: We adopt different payment methods for different customer segments. We register business customers and some residential customers, establish credit limits for them and require them to settle their account balances on a monthly basis. We have established a national settlement center and three regional billing centers for our long distance services. We also distribute pre-paid cards for circuit switched long distance services and IP telephony services.

Paging Services: We generally require our paging subscribers to pre-pay the monthly fees for at least one month. We generally suspend a subscriber's service if the subscriber does not renew the service upon the expiration of the prepaid period and terminate the account if it is overdue for more than three months.

Research and Development

We have established a new product development center in 2001, which focuses on developing new services and supporting our various business segments. Main projects of the product development center in 2001 include those relating to integrated recharge cards for multiple pre-paid services, CDMA 1XRTT technology, short message download, video conference and integrated customer service system. We plan to continue to strengthen our research and development efforts.

Competition

GSM Cellular Competition

Our main competitor in the GSM cellular communications business is China Mobile, the incumbent operator in the cellular sector. As of December 31, 2001, we had a market share of 28.5% in our service areas in terms of the number of subscribers. China Mobile continues to have competitive advantages over us in brand name, market share, financial resources and network management experiences. To compete against China Mobile, we aim to deploy state-of-the-art technology, continue to enhance network quality and improve customer service, and leverage our pricing flexibility and our position as a fully integrated telecommunications operator. One of our key strategies is the launch of CDMA services that target mid- to high-end cellular subscribers.

Our cellular services also compete with the wireless services of China Telecom and China Netcom, known as "Little Smart", that are based on its fixed line networks and utilize personal handyphone system, or PHS, a technology developed by UT Starcom in 1998. The PHS services have attracted several million subscribers nationwide and compete with us mostly in the lower end of the cellular market. The main advantage of PHS services is their lower tariff rates. However, PHS services have limited network coverage and generally do not allow roaming outside of a subscriber's own service area. They also tend to fail when a caller is moving at a relatively high speed.

Long Distance Telephony Competition

The Chinese government has recently separated the fixed line incumbent China Telecom into two companies with the southern company retaining the name of China Telecom and assets and businesses in

21 provinces in China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom. China Telecom and China Netcom are the dominant providers and our primary competitors in the circuit switched long distance business in their respective current service areas. They have advantages over us in their respective current service areas in brand name, market share, financial resources, service area coverage, extensive access networks and experience in fixed line telecommunications business. In addition, China Railcom, the third licensed provider of circuit switched long distance services in China, launched long distance services in China in 2001.

We started to provide circuit switched long distance telephony services in 2000 and had a market share of 4.3% in terms of total outgoing long distance call minutes in 2001. Since our network has been constructed recently and is equipped with the latest technology and advanced features, it enables us to offer a variety of high-quality services. Our long distance telephony services are also supported by a centralized billing system.

Our IP telephony services currently face intense competition from China Telecom, China Mobile and China Netcom. Currently, China Telecom and China Netcom are the market leaders in their respective current service areas. Our market share of the IP telephony market in China declined from approximately 50% in 1999 to approximately 18% in 2001, mainly due to the entry of China Telecom into the market in 2000. The Ministry of Information Industry deregulated the tariffs of this market in 2001 and international long distance telephony rates fell significantly afterwards.

Data and Internet Competition

China Telecom and China Netcom are our major competitors in the data services business in their respective current service areas. While there are many retail Internet service providers in China, they have a leading position in the Internet access market and are the largest wholesale Internet service providers in their current service areas in China. We started to provide data and Internet services in 2000 and are yet to acquire a significant market share. Our Internet access businesses will also compete with the broadband access services offered by cable companies. The advanced features and design of our backbone network allow us to provide nationwide high quality virtual private network services, which are specifically tailored to the high-usage corporate customers and retail Internet service providers that we target. We are also building advanced metropolitan area networks and integrated access networks that allow us to connect to key commercial buildings throughout China.

Paging Competition

Competition in the paging industry in China is extremely intense, resulting in significant price decreases over the last several years. We are the dominant paging operator in China. The rest of the paging services market in China is comprised of hundreds of paging service providers, each with a small individual market share. In addition, cellular communications services increasingly compete with, and substitute paging services. We believe that we have a competitive advantage over our competitors in the paging industry because we have a dominant market position, an advanced paging network, the broadest coverage in China, a well recognized brand name and comprehensive customer services coverage. We continue to optimize our paging networks and improve service quality and efficiency. We are also actively pursuing new paging services such as information services.

Properties

Our principal executive offices are located in Beijing. We also maintain executive offices in Hong Kong. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. For some of those properties we own, we have not obtained land use rights certificates or building ownership certificates. In some cases, we have not entered into formal lease agreements with the lessors or the lessors do not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time. Our controlling shareholder, Unicom Group, has agreed to indemnify us against any loss or damages incurred by us that are caused by or arising from any challenge of, or interference with, our right to use these properties.

Trademarks

We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the "Unicom" trademark in English and the trademark bearing the Unicom logo. Under an exclusive trademark license agreement, Unicom Group granted our Chinese operating subsidiary China Unicom Corporation Limited and its subsidiaries the right to use these trademarks on a royalty-free basis. Unicom Group has also applied and became the registered proprietor of the trademark of the word "Unicom" in Chinese.

REGULATORY AND RELATED MATTERS

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the Ministry of Information Industry, which since March 1998 has assumed responsibility for the telecommunications regulatory functions previously performed by the former Ministry of Posts and Telecommunications and the State Radio Regulatory Commission. The State Council, the State Economic and Trade Commission, the State Development Planning Commission, the Ministry of Foreign Trade and Economic Cooperation and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

The Ministry of Information Industry, under the supervision of the State Council, is responsible for:

- formulating overall industry policies and regulations,
- developing and enforcing uniform industry technology standards,
- regulating the telecommunications market and service providers,
- allocating telecommunications resources such as spectrum and numbers, and
- setting guidance tariffs for most telecommunications services.

The Ministry of Information Industry has established a Telecommunications Administration Bureau in each province, which is mainly responsible for enforcement of telecommunications policies and regulations in that province.

The Ministry of Information Industry is in the process of drafting a telecommunications law which, once adopted by the National People's Congress, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective.

Telecommunications Regulations

The State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the existing rules and policies for the telecommunications industry. They provide the current primary regulatory framework for China's telecommunications industry in the interim period prior to the adoption of the proposed telecommunications law.

The Telecommunications Regulations are intended to develop a transparent and fair regulatory environment to foster orderly competition and encourage development in the telecommunications industry. The Telecommunications Regulations address all key aspects of the telecommunications industry, including entry into the industry, scope of business, tariff setting, interconnection arrangements, quality of services, technology standards and allocation of telecommunications resources.

Entry into the Industry

The new telecommunications regulations adopt the existing regulatory distinction between basic and value added telecommunication services. Basic telecommunications services include, among others, fixed line local and domestic long distance telephony services, international telecommunications services, mobile voice and data services, Internet and other public data transmission services, lease or sale of network elements such as bandwidth, wavelength, optic fibers and fiber optic cables, and paging services. Value added telecommunications services include, among others, e-mail, voice mail, electronic data interchange, Internet access, Internet content and video conferencing services. Providers of any basic telecommunications services as well as providers of value added services in two or more provinces in China must apply for licenses from the Ministry of Information Industry. Licenses for basic telecommunications services will be granted through a tendering process.

After its accession to the WTO in December 2001, China has promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, effective on January 1, 2002, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in China to foreign operators. However, the presence or absence of foreign investments in an applicant for telecommunications licenses will presumably bear no direct relation to the decision on whether to issue licenses, in as much as the issuance of new licenses is governed by a separate set of rules and regulations. The specific market-opening commitments China made to the WTO regarding fixed line services and mobile services are as follows.

For fixed line services:

(1) Within three years after accession: foreign service providers will be permitted to establish joint venture enterprises and provide services in and between the cities of Shanghai, Guangzhou and Beijing; foreign ownership in such joint ventures shall be no more than 25%;

(2) Within five years after accession: the services areas will be expanded to include services in and between an additional 14 cities; foreign ownership shall be no more than 35%; and

(3) Within six years after accession: there will be no geographic restriction and foreign ownership shall be no more than 49%.

For mobile voice and data services:

(1) Upon accession: foreign service providers will be permitted to establish joint venture enterprises and provide services in and between the cities of Shanghai,

Guangzhou and Beijing; foreign ownership in such joint ventures shall be no more than 25%;

(2) Within one year after accession: the services areas will be expanded to include services in and between an additional 14 cities; foreign ownership shall be no more than 35%;

(3) Within three years after accession: foreign ownership shall be no more than 49%; and

(4) Within five years after accession: there will be no geographic restriction.

The Ministry of Information Industry has promulgated Measures on the Administration of Telecommunication Business Licenses, which took effective on January 1, 2002. Those rules apply to the application for, examination and approval of, telecommunications business licenses in China.

Spectrum Resources

The Ministry of Information Industry allocates all telecommunications related frequencies including those used in cellular, paging and microwave operations. The 800 MHZ, 900 MHZ and 1,800 MHZ frequency bands have been reserved for mobile cellular applications and parts of the 150 MHZ and 280 MHZ frequency bands have been reserved for paging applications. The frequency assigned to a licensee may not be leased or transferred without obtaining the approval of the Ministry of Information Industry. We have been notified by the relevant government authorities of an increase in spectrum usage fees. According to the current standardized fee scale, spectrum usage fees for GSM networks are charged at the rate of RMB1 million per MHz of frequency (upward and downward frequencies are aggregately charged as one MHz of frequency) while CDMA networks are not subject to the payment of any spectrum usage fees. The standard spectrum usage fees for GSM networks and CDMA networks will be adjusted with effect from July 1, 2002, progressively over a period of three years and a period of five years respectively. After the completion of the adjustment, the spectrum usage fees for GSM networks and CDMA networks will be charged at the annual rate of RMB15 million per MHz of frequency (upward and downward frequencies are separately charged). The current allocation of spectrum usage fees between Unicom Group and us based on the number of subscribers remains unchanged. See "Adjustment of tariffs, Interconnection Settlement and Spectrum Usage Fees" under Item 5 for a discussion on the amount of expense increase as a result of this adjustment.

Tariff Setting and Price Controls

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission, and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities. Under the Telecommunications Regulations, telecommunications tariffs are categorized into state fixed tariffs, state guidance tariffs and market based tariffs. For example, there are state guidance tariffs for cellular services, fixed line telephony services and leased lines services that are set jointly by the Ministry of Information Industry and the State Development Planning Commission. Tariffs for telecommunications services where adequate competition has already developed may be set by the service providers as market-based tariffs.

In 1997, the Chinese government granted us preferential treatment by allowing us to vary our cellular tariffs by up to 10% from the state guidance rates. In 1999, the Chinese government authorities further allowed us to vary our tariffs by up to 20% from the state guidance rates in areas where China Mobile operates local analog cellular networks.

The government is required to hold public hearings before setting or changing important state tariff rates, which are attended by telecommunication operators, consumers and others. Operators are required to provide complete and adequate cost data and other materials for those hearings.

In December 2000, the Ministry of Information Industry, the State Development Planning Commission and the Ministry of Finance jointly issued a tariff adjustment circular, which provides for tariff adjustments for a wide range of telecommunications services. Effective from February 21, 2001, we have adopted these government tariff adjustments. For a discussion of the expected impact on our results of operations and financial condition, see "Adjustments of Tariffs, Interconnection Settlement and Spectrum Usage Fees" under Item 5.

Interconnection Arrangements

In 1999, the Ministry of Information Industry issued provisional regulations on interconnection and settlement arrangements. These regulations contain specific provisions regarding, among other things, revenue sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. The Telecommunication Regulations reaffirmed the obligations of dominant telecommunications operators in China, such as China Telecom and China Mobile, to provide interconnection with other operators.

The Ministry of Information Industry adjusted the interconnection revenue sharing and settlement arrangements, effective retroactively from March 21, 2001. We have entered into interconnection and settlement agreements with China Telecom and China Mobile that implemented the regulatory requirements.

The following table sets forth our interconnection revenue sharing and settlement arrangements with China Telecom and China Mobile for local calls before and after the regulatory adjustment in 2001.

Network from which calls originated	Network at which calls terminated	Old Settlement Arrangement	New Settlement Arrangement
Unicom's cellular network	China Telecom's public fixed line network	(1) Unicom collects the cellular usage charge from its subscribers (2) Unicom pays RMB0.05 per minute to China Telecom	(1) Unicom collects the cellular usage charge from its subscribers (2) Unicom pays RMB0.06 per minute to China Telecom
China Telecom's public fixed line network	Unicom's cellular network	No revenue sharing or settlement	No revenue sharing or settlement
Unicom's cellular network	China Mobile's cellular network	No revenue sharing or settlement	No revenue sharing or settlement
China Mobile's cellular network	Unicom's cellular network	No revenue sharing or settlement	No revenue sharing or settlement

The following table sets forth our interconnection revenue sharing and settlement arrangement with China Telecom and China Mobile for domestic long distance calls before and after the regulatory adjustment in 2001.

Network from which calls originated	Network at which calls terminated	Old Settlement Arrangement	New Settlement Arrangement
Unicom's cellular network at area A	China Telecom's public fixed line network at area B, if through the long distance network of China Telecom	(1) Unicom collects the domestic long distance tariff from its subscribers (2) Unicom keeps RMB0.14 per minute and pays the rest to China Telecom	(1) Unicom collects the domestic long distance tariff from its subscribers (2) Unicom keeps RMB0.06 per minute and pays the rest to China Telecom
China Telecom's public fixed line network at area A	Unicom's cellular network at area B (through Unicom's transmission line)	(1) China Telecom collects the domestic long distance tariff from its subscribers (2) China Telecom keeps RMB0.14 per minute and pays the rest to Unicom	(1) China Telecom collects the domestic long distance tariff from its subscribers. (2) China Telecom keeps RMB0.06 per minute and pays the rest to Unicom
China Telecom's public fixed line network at area A	China Telecom's public fixed line network at area B, if through the long distance network of Unicom	(1) China Telecom on the originating end collects the domestic long distance tariff from its subscribers (2) China Telecom keeps RMB0.14 per minute and pays the rest to Unicom (3) No settlement between Unicom and China Telecom on the receiving end	(1) China Telecom on the originating end collects the domestic long distance tariff from its subscribers (2) China Telecom keeps RMB0.06 per minute and pays the rest to Unicom (3) Unicom then pays RMB0.06 per minute to China Telecom on the receiving end
Unicom's cellular network at area A	China Mobile's cellular network at area B (through China Mobile's transmission line)	(1) Unicom collects the domestic long distance tariff from its subscribers (2) Unicom keeps RMB0.14 per minute and pays the rest to China Mobile	(1) Unicom collects the domestic long distance tariff from its subscribers (2) Unicom keeps RMB0.06 per minute and pays the rest to China Mobile
China Mobile's cellular network at area A	Unicom's cellular network at area B (through Unicom's transmission line)	(1) China Mobile collects the domestic long distance tariff from its subscribers (2) China Mobile keeps RMB0.14 per minute and pays the rest to Unicom	(1) China Mobile collects the domestic long distance tariff from its subscribers (2) China Mobile keeps RMB0.06 per minute and pays the rest to Unicom

The following table sets forth our interconnection revenue sharing and settlement arrangement with China Telecom for international long distance calls through China Telecom's international gateways before and after the regulatory adjustment in 2001.

Type of calls	Old Settlement Arrangements	New Settlement Arrangements
Outgoing calls from Unicom's cellular network	(1) Unicom collects the international long distance tariff from its subscribers (2) Unicom keeps RMB0.20 per minute and pays over the rest of the international long distance tariff to China Telecom	(1) Unicom collects the international long distance tariff from its subscribers (2) Unicom keeps RMB0.06 or RMB 0.54 per minute (depending on whether through Unicom's domestic long distance transmission line) and pays the rest of the international long distance tariff to China Telecom
Incoming calls to Unicom's cellular network	(1) Unicom receives RMB0.63 or RMB0.07 per minute from China Telecom (depending on whether through Unicom's domestic long distance transmission line)	(1) Unicom receives RMB0.54 or RMB0.06 per minute from China Telecom (depending on whether through Unicom's domestic long distance transmission line)

The following table sets forth our interconnection revenue sharing and settlement arrangements with China Telecom for IP telephony long distance calls through our network before and after the regulating adjustment in 2001.

Network from which calls originated	Network at which calls terminated	Old Settlement Arrangement	New Settlement Arrangement
Unicom's cellular network at area A	China Telecom's public fixed line network at area B	No revenue sharing or settlement	(1) Unicom collects the IP telephony long distance charges from its subscribers (2) Unicom pays RMB0.06 per minute to China Telecom on the receiving end
China Telecom's public fixed line network at area A	China Telecom's public fixed line network at area B	No revenue sharing or settlement	(1) Unicom collects the IP telephony long distance charges from its subscribers (2) Unicom pays RMB0.06 per minute to China Telecom on the receiving end (3) No settlement between Unicom and China Telecom on the originating end

Technical Standards

The Ministry of Information Industry sets industry technical standards for the Chinese telecommunications industry. Most of the standards set by the Ministry of Information Industry conform to the standards recommended by the International Telecommunications Union and other international telecommunications standards organizations. In cases where the Ministry of Information Industry has not set certain industry technical standards, we set our own enterprise technical standards. The Ministry of Information Industry also requires all network operators in China to purchase only telecommunications equipment certified by the Ministry of Information Industry, including cellular and paging equipment, radio equipment and interconnection terminal equipment.

Capital Investment

To supervise and coordinate the development of telecommunications infrastructure in China, the State Council or the State Development Planning Commission must approve all major investment projects, including telecommunications network development projects involving a total capital investment of more than RMB 50 million. Unicom Group is authorized to approve any project with a total investment of less than RMB 50 million, which is equivalent to the approval level delegated to provincial government and ministry authorities.

ORGANIZATION STRUCTURE

We are incorporated in Hong Kong and are 77.47% indirectly owned by the Unicom Group and 22.53% owned by public shareholders as of the date of this annual report. Set forth below are details of our significant subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest
China Unicom Corporation Limited	China	100%
Guoxin Paging Corporation Ltd.	China	100%

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis together with the selected financial data set forth in Item 3 and the consolidated financial statements included in this annual report. The financial statements have been prepared in accordance with Hong Kong GAAP, which differs in a number of material respects from US GAAP. Note 41 to the consolidated financial statements summarizes the significant differences between Hong Kong GAAP and US GAAP as they relate to our financial statements and provides a reconciliation to US GAAP of our net income, shareholders' equity and statement of cash flows. Our financial statements and the discussion and analysis below assume that our current structure had been in existence throughout the relevant periods.

OVERVIEW

We are a fast growing integrated provider of telecommunications services in China, offering a wide range of telecommunications services including cellular, long distance, data and Internet and paging services. We offer cellular services in nine provinces and three municipalities and had a market share of 28.5% in terms of subscriber base in our service areas as of the end of 2001. We are also the largest paging operator in China. In addition, we provide IP telephony, circuit switched long distance telephony, data and Internet services.

The table below sets forth the major revenue items and their respective percentage of total operating revenue in 1999, 2000 and 2001.

	For the year ended December, 31					
	1999		2000		2001	
	RMB in millions	% of Total Revenue	RMB in millions	% of Total Revenue	RMB in millions	% of Total Revenue
Total revenue	17,450	100%	23,692	100%	29,393	100%
Total service revenue:	14,440	82.8%	21,767	91.9%	28,156	95.8%
Cellular	5,314	30.5%	12,188	51.5%	20,505	69.8%
Paging	9,047	51.8%	8,483	35.8%	4,342	14.8%
Long distance, data and Internet	79	0.5%	1,096	4.6%	3,309	11.2%
Revenue from sales of telecommunications products	3,010	17.2%	1,925	8.1%	1,237	4.2%
Cellular	527	3.0%	696	2.9%	821	2.8%
Paging	2,483	14.2%	1,229	5.2%	416	1.4%

Along with the rapid growth of China's telecommunications industry, especially its cellular communications sector, our total operating revenue increased at an annual compound rate of 29.8% between 1999 and 2001. This increase was primarily the result of the continued growth in revenue of our cellular business from 1999 to 2001 as well as the strong growth of our long distance, data and Internet services launched in 1999 and 2000. Our paging revenue has declined sharply over the same period as China's paging market has declined and as we gradually exit the unprofitable pager sales business.

We believe that the rapid development of our cellular business and the expansion of our long distance, data and Internet businesses have resulted in a revenue structure that reflects our strategy of targeting high growth, high margin areas of China's telecommunications industry. Revenue from our cellular business as a percentage of total operating revenue increased from 33.5% in 1999 to 72.6% in 2001. Revenue from long distance, data and Internet businesses increased to 11.3% of operating revenue in 2001, from 0.5% of our total operating revenue in 1999. At the same time, revenue from our paging business as a percentage of total operating revenue decreased from 66.0% of our total operating revenue in 1999 to 16.2% in 2001. We aim further to leverage our position as an integrated telecommunications operator in order to continue to drive the growth of our cellular business and long distance, data and Internet business.

The following table sets forth our major expense items, operating income and adjusted EBITDA both in terms of amount and as a percentage of total operating revenue in 1999, 2000 and 2001.

	For the year ended December 31,					
	1999		2000		2001	
	RMB in millions	% of Total Revenue	RMB in millions	% of Total Revenue	RMB in millions	% of Total Revenue
Total Operating Revenue	17,450	100%	23,692	100%	29,393	100%
Total Operating Expenses	14,634	83.9%	18,470	78.0%	24,129	82.1%
Leased line	1,099	6.3%	1,158	4.9%	853	2.9%
Interconnection charges	693	4.0%	1,380	5.8%	2,073	7.1%
Depreciation and amortization	3,691	21.2%	5,734	24.2%	8,262	28.1%
Personnel	1,713	9.8%	1,770	7.5%	2,487	8.5%
Selling and marketing	1,557	8.9%	2,492	10.5%	3,613	12.2%
General, administrative and other expenses	2,586	14.8%	3,743	15.8%	5,499	18.7%
Cost of telecommunications products sold	3,294	18.9%	2,193	9.3%	1,342	4.6%
Operating income	2,816	16.1%	5,222	22.0%	5,264	17.9%
Adjusted EBITDA(1)	6,507	37.3%	10,956	46.2%	13,526	46.0%

(1) Adjusted EBITDA represents income before net financial income (expenses), other income (expenses), taxation, depreciation and amortization, minority interests and, for 2000 and 1999, losses arising from the termination of CCF arrangements. Since the telecommunications business is a capital intensive business, capital expenditure and the level of debt and interest expenses may have a significant impact on net income for companies with similar operating results. Therefore, we believe that, for a growing telecommunications company such as us, EBITDA provides a useful reflection of its operating results. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, debt capacity and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. In addition, our adjusted EBITDA as described in this annual report is not necessarily comparable with similarly titled measures for other companies.

As a percentage of total operating revenue, total operating expenses increased to 82.1% in 2001 from 78.0% in 2000. This increase reflected increased fixed costs, rising selling and marketing expenses and a provision for impairment of paging assets. We continued to aim to strengthen management, integrate our businesses and control costs to achieve greater overall efficiency. Our adjusted EBITDA margin stayed steady at 46.0% in 2001, as compared with 46.2% in 2000 and 37.3% in 1999.

For the first three months of 2002, our total unaudited revenue was RMB 8.35 billion, including RMB 6.65 billion from our cellular business, RMB 0.96 billion from our long distance, data and Internet business and RMB 0.74 billion from our paging business.

CRITICAL ACCOUNTING POLICIES

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operation is discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 3 to our consolidated financial statements included in this annual report on Form 20-F. It should be noted that our preparation of this annual report on Form 20-F requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amount of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Revenue Recognition

Our revenue primarily comprises usage fees, monthly fees, connection fees, sales of telecommunications products and leased line rental income. Under Hong Kong GAAP, we recognize our revenue when it is probable that the economic benefits associated with a transaction will flow to us and when the revenue and cost can be measured reliably. For usage fees and monthly fees, rental income is recognized when the related service is rendered. Leased line rental income is recognized on the straight-line basis over the lease term. Sales of telecommunications products, such as handsets, SIM cards and pagers, are recognized when the title of products has passed to the buyers. Connection fees are recognized upon activation of service for subscribers.

However, under US GAAP, we would defer and recognize the upfront non-refundable revenue (including connection fees and sales of SIM cards) and the related direct incremental costs (including agency commission expenses and costs of SIM cards sold) of the cellular business over the expected average service period of our subscribers. The average service period for the cellular business is estimated based on the expected stabilized churn rate of our subscribers, which is determined based on our current estimation after considering the prevailing market environment. If our business conditions or market environment changes in the future, the expected customer service period may change, which would significantly affect our revenue and costs.

Impairment of Assets

As of each year end, we conduct a full review of our property, plant and equipment and intangible assets, and provide what we believe to be a reasonable and prudent estimate on the amount of impairment loss of each asset whenever events or circumstances indicate that the carrying amount of such asset may not be recoverable. To the extent that the estimated recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognized. Our estimation of the amount of impairment loss involves significant judgment regarding the value of particular assets and general market trends.

For example, in 2001 our paging business in certain provinces experienced a decline in revenue and loss of customers and thus incurred an operating loss. As a result, the carrying amounts of certain assets (including telecommunications equipment and goodwill related to the business) of our paging business exceeded their values in use. We thus made a provision for impairment loss for these assets in order to properly reflect our estimation of their recoverable values. We estimated value in use for these assets based on the expected discounted future net cash flows generated from the continuing use of the assets, and recognized an impairment loss for the amount not recoverable. In estimating the discounted future net cash flows, we have made certain assumptions and estimations, including with regard to the appropriate discount rate and the period covered by the cash flow forecast, our prediction of a gradual slow-down in future loss of customers, the expected stability in average revenue per subscriber, the effects of incremental cash flows arising from new paging businesses and the adoption of cost reduction plans. We made these assumptions and estimations after considering the historical trends, the current market changes and the physical condition of the related assets, taking account of the risks involved. Based on the above, we recorded impairment losses of assets for the year ended December 31, 2001 in the amount of approximately RMB0.63 billion.

Since we made our estimates based on the assumptions described above, to the extent these assumptions were incorrect, the actual recoverable amount for the assets concerned may differ significantly from estimation. As a result, to the extent our assumptions and estimation prove incorrect, we may need to make additional impairment provisions in the future.

Provision for Doubtful Debts

We state accounts receivable at cost less a provision for doubtful debts. Provision for doubtful debts is initially estimated through ascertaining specific accounts where there are indications that the receivable may be doubtful or is not collectible. We record a specific provision for such debts after making an estimate of the probability of non-recovery. For the remaining receivable balances as of the balance sheet date, we make a general provision based on the aging pattern of receivable balances and by applying reasonable percentages to the outstanding receivables. We make such estimates based on our experience, our assessment of likelihood of subscriber payment and collection trends. For example, since our paging business mainly collects fees in advance and collects only limited revenue from sales agents, we make a 100% provision for receivables from sales agents aged over one month in our paging business. For other telecommunications services, we make a 100% provision for receivables aged over three months. If circumstances change (including due to business development or the external market environment), or our estimates prove to be incorrect, we may be required to make additional provisions in the future.

Accounting for Income Taxes

We provide for income tax based on our 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 we are entitled.

We provide for deferred taxation under the liability method at the current tax rate in respect of temporary differences between income as computed for taxation purposes and income as stated in our income statement, except where we consider it probable that no liability will arise or no asset will crystallize in the foreseeable future. We do not recognize a deferred tax asset unless we expect the related benefits to crystallize in the foreseeable future.

In the preparation of our financial statements, we estimate our income taxes in accordance with the prevailing tax rules and regulations in each location or jurisdiction in which we operate. In this process, we estimate our current tax exposure and assessing 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. Major deferred tax components include interest on loans from CCF joint ventures, income tax on advances from subscribers and prepaid telephone cards, impairment provisions for plant, property and equipment and other long-lived assets, provision for doubtful debts and write-down for inventory to net realizable value and additional depreciation deductible for tax purposes. Owing to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to RMB1.58 billion, RMB1.01 billion and RMB0.5 billion as of December 31, 2001, 2000 and 1999, respectively. Deferred tax assets are recognized based on management estimates to the extent that they will be recovered from future taxable income from continuing operations in the foreseeable future.

We believe we have recorded adequate current and deferred taxes based on prevailing tax rules and regulations. In the event that our estimates prove incorrect or that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxes may be necessary.

OPERATING RESULTS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Total revenue increased by 24.1%, from RMB23.69 billion in 2000 to RMB29.39 billion in 2001. Our service revenue increased by 29.3%, from RMB21.77 billion in 2000 to RMB28.16 billion in 2001, and the share of service revenue in total revenue increased from 91.9% in 2000 to 95.8% in 2001. Net income increased by 37.8%, from RMB3.23 billion in 2000 to RMB4.46 billion in 2001, and basic net income per share increased from RMB0.29 in 2000 to RMB0.36 in 2001. Adjusted EBITDA increased by 23.4%, from RMB10.96 billion in 2000 to RMB13.53 billion in 2001. Adjusted EBITDA margin stayed steady at 46.0% in 2001, as compared with 46.2% in 2000.

Operating Revenue

Our total operating revenue increased by 24.1%, from RMB23.69 billion in 2000 to RMB29.39 billion in 2001, primarily due to the rapid growth in our cellular business and our long distance, data and Internet businesses. Growth in these areas more than offset a 51% decline in revenues from our paging business. See Note 4 to our consolidated financial statements included in this annual report for different categories of revenue in each of our business segments.

Cellular Revenue

Our cellular business continued to record rapid growth in 2001. As cellular subscribers increased by 111.7%, from 12.78 million at the end of 2000 to 27.03 million at the end of 2001, total revenue from our cellular business also grew by 65.5%, from RMB12.88 billion in 2000 to RMB21.33 in 2001. Service revenue from our cellular business increased by 68.2%, from RMB12.19 billion in 2000 to RMB20.51 billion in 2001. Revenue from our cellular business increased its contribution to our total operating revenue to 72.5% in 2001, from 54.4% in 2000. Average revenue per user, or ARPU, per month of cellular subscribers decreased by 30.6% from RMB124.3 in 2000 to RMB86.3 in 2001. Factors contributing to this decrease included expanding market penetration, an increase in the proportion of low-usage subscribers as a percentage of the total number of subscribers, an increased number of pre-paid subscribers, discontinuation of connection fees, the reduction of long distance tariffs and increasing market competition. Average minutes of usage, or MOU, per subscriber per month decreased 10.2%, from 179.5 in 2000 to 161.2 in 2001. ARPU for post-paid customers decreased by 26.5%, from RMB129.00 in 2000 to RMB94.80 in 2001. ARPU for pre-paid customers decreased by 15.6%, from RMB75.10 in 2000 to RMB63.40 in 1999. We believe the decrease in ARPU is consistent with market-wide trends resulting from expansion of cellular services to a broader market.

Usage Fee. Usage fees include charges for incoming and outgoing calls as well as roaming-out fees for calls made by our subscribers outside their local service areas. Revenue from usage fees for cellular business increased by 81.9%, from RMB8.21 billion in 2000 to RMB14.94 billion in 2001. The increase was primarily due to the increase in the number of cellular subscribers. Usage fees accounted for 72.8% of the total service revenue from cellular business (which excludes sales of cellular telecommunication products) in 2001, an increase from 67.4% in 2000. The increase in usage fees as a percentage of total service revenue reflected the growth of our pre-paid service, which has higher airtime charges but no monthly fees, and also the discontinuation of connection fees in 2001. Revenue from pre-paid cellular service was RMB4.10 billion in 2001, a 530% increase from RMB0.65 billion in 2000. Revenue from pre-paid services accounted for 20.5% of the total service revenue from our cellular business in 2001, an increase from 5.3% of the total service revenue from cellular business in 2000.

Monthly Fee. Revenue from monthly fees for cellular service increased by 47.8% from RMB2.48 billion in 2000 to RMB3.66 billion in 2001, primarily due to an increase in the number of cellular subscribers. Revenue from monthly fees grew at a slower rate than the overall growth rate of our subscriber base, however, as pre-paid subscribers accounted for 58.7% of our new customers in 2001, compared to 24.3% in 2000. Revenue from monthly fees accounted for 17.9% of the total service revenue from our cellular business in 2000, a decrease from 20.3% in 2000, also reflecting the increase in pre-paid subscribers.

Connection Fee. Revenue from cellular connection fees decreased from RMB0.52 billion in 2000 to RMB0.2 billion in 2001, accounting for 1.0% of total service revenue from our cellular business in 2001, compared to 4.2% in 2000. The decline resulted from the discontinuation of connection fees on July 1, 2001, as required by new regulations that became effective on that date.

Interconnection Revenue. Interconnection revenue from our cellular business includes amounts received from other cellular operators, including Unicom Group, for calls from their networks to our networks and roaming-in fees received from other operators, including Unicom Group, for calls made by their subscribers using our cellular networks. Revenue from interconnection fees increased by 67.5%, from RMB0.75 billion in 2000 to RMB1.26 billion in 2001, primarily due to an increase in incoming calls from other networks as a result of the expansion of our cellular network coverage and subscriber base.

Other Revenue. Other revenue consists primarily of revenue from value-added services to our subscribers, including wireless data and wireless Internet services, including our new wireless data business under the “UNI-INFO” brand. Other revenues increased by 92.8% in 2001, from RMB 0.23 billion in 2000 to RMB0.44 billion in 2001, primarily reflecting the expansion of our value-added services.

Sales of Cellular-Related Telecommunications Products. Revenue from sales of cellular-related telecommunications products, primarily SIM cards and handsets, increased by 17.9%, from RMB0.70 billion in 2000 to RMB0.82 billion in 2001. The increase resulted primarily from increased sales of SIM cards resulting from the increase in new cellular subscribers. The increase was offset in part by lower average selling prices of SIM cards.

Long Distance, Data and Internet Revenue

We expanded our network coverage and capacity for long distance, data and Internet services in 2001. These businesses have been developing into important sources of revenue for us. Total revenue from long distance, data and Internet businesses was RMB3.31 billion in 2001, 3.0 times the RMB 1.10 billion in revenue from such businesses in 2000. This increase was primarily attributable to the expansion of our nationwide network coverage and increased subscribers, resulting in an increase in total usage. Our long distance, data and Internet business also provided transmission capacity to our cellular business and the related inter-company revenue increased 2.6 times, from RMB0.46 billion in 2000 to RMB1.17 billion in 2001.

Revenue from Circuit Switched Long Distance Services. Revenue from our circuit switched long distance business increased 162% from RMB0.57 billion in 2000 to RMB1.49 billion in 2001. The increase in revenue from these services, which were launched in 2000, reflected the expansion of our nationwide network coverage, improved interconnection and increased cooperation with telecommunication operators overseas, which resulted in increased incoming international calls. Incoming international calls connected totaled 1.16 billion minutes in 2001, an increase of 49.4 times from 2000.

Revenue from Data and IP Telephony Services. Revenue from data and IP telephony services increased by 203.5%, from RMB 0.51 billion in 2000 to RMB1.55 billion in 2001. The increase reflected continued growth in usage of our domestic and international IP services as we improved the network coverage and communication quality of IP telephony and promoted usage through various marketing initiatives. Data revenue expanded as we further developed value-added, managed data services, including FR, ATM and VPN services. We also strengthened retail sales of telephone cards. We sell IP telephony services mainly in the form of pre-paid calling cards. We recognize revenue from IP telephony services when pre-paid minutes are actually used.

Revenue from Internet Services. Revenue from Internet services increased by 14.3 times, from RMB 18 million in 2000 to RMB 257 million in 2001. The increase resulted from expanded use of these services in 2001.

Paging Revenue

Revenue from our paging business decreased by 51.0%, from RMB9.71 billion in 2000 to RMB4.76 billion in 2001. Revenue from paging services (which excludes sales of pagers) decreased by 48.8%, from RMB8.48 billion in 2000 to RMB4.34 billion in 2001. The decrease in paging business revenue resulted primarily from negative growth in the paging industry overall, as customers continued to switch from paging services to cellular and other telecommunications services, and from decreasing tariffs due to increased competition. The decrease also reflected our continued exiting of the unprofitable pager sales business.

Monthly Fee. Our revenue from paging services was primarily from monthly fees, representing 95.4% of the total service revenue from the paging business in 2001. Our revenue from monthly fees decreased by 48.2%, from RMB7.99 billion in 2000 to RMB4.14 in 2001, as a result of the decline in paging subscribers primarily, and also of tariffs.

Other Revenue. Other revenue from our paging business included wireless messaging service fees, paging number selection fees and other value-added service fees, as well as commissions from the sales of cellular services for Unicom Group. Other revenues decreased from RMB0.42 billion in 2000 to RMB0.20 billion in 2001, excluding the inter-company commission revenue of RMB 14 million from the distribution of our own cellular services.

Sales of Paging-Related Telecommunications Products. Revenue from the sales of pagers decreased by 66.0%, from RMB1.23 billion in 2000 to RMB0.42 billion in 2001, primarily due to our gradually exiting the unprofitable pager sales business. The percentage of pager sales revenue as a total of our total paging revenue decreased from 12.7% in 2000 to 8.8% in 2001.

Operating Expenses

Total operating expenses increased by 30.6% from RMB18.47 billion in 2000 to RMB24.13 billion in 2001. Operating expenses increased at a faster rate than total operating revenues, which increased by 24.1% in 2001. As a percentage of total operating revenue, total operating expenses increased from 78.0% in 2000 to 82.1% in 2001. The increase in operating expenses primarily reflected increased fixed costs, rising selling and marketing expenses in an increasingly competitive environment and a provision for impairment of paging assets.

Leased Line. Total leased line expenses decreased by 26.3%, from RMB1.16 billion in 2000 to RMB0.85 billion in 2001, notwithstanding the significant growth in our overall business volume. Measured as a percentage of total operating revenue, leased line expenses decreased from 4.9% in 2000 to 2.9% in 2001. The decrease in our leased line expenses was the result of lower leased line tariffs as well as our efforts to extend and optimize our nationwide optical fiber network, utilize our own transmission network and improve allocation and coordination of our network resources. As a result of these factors, leased line expenses in our cellular business decreased by 8.1%, from RMB0.58 billion in 2000 to RMB0.53 billion in 2001. The foregoing factors, as well as decreased paging service volumes, resulted in a 59.5% decrease in leased line expenses in our paging business, from RMB0.76 billion in 2000 to RMB0.31 billion in 2001, which was a major contributor to the decrease in our leased line expenses. Leased line expenses in our long distance, data and Internet businesses increased by 57%, from RMB0.27 billion in 2000 to RMB0.43 billion in 2001, which resulted primarily from increased service volumes.

Interconnection Charges. Interconnection expenses represent amounts paid to other operators, including Unicom Group, for calls from our networks to their networks. These expenses also include roaming-out fees paid to other operators, including Unicom Group, for calls made by our subscribers roaming in their networks. Due to the expansion of our network, increases in subscribers and interconnection traffic and adjustments to interconnection methods and standards, interconnection expenses increased by 50.2%, from RMB1.38 billion in 2000 to RMB2.07 billion in 2001. As a percentage of total operating revenue, interconnection expenses increased from 5.8% in 2000 to 7.1% in 2001. Interconnection expenses for our cellular business increased by 73.1%, from RMB1.27 billion in 2000 to RMB2.20 billion in 2001. Interconnection expenses for our long distance, data and Internet business increased by 5.7 times, from RMB0.11 billion in 2000 to RMB0.63 billion in 2001, primarily as the result of an increase in interconnection fees in our expanding long distance business. In accordance with new regulations that became effective in March 2001, our IP telephony business began interconnection settlements with other domestic operators in March 2001, resulting in an additional expense of RMB0.12 billion.

Depreciation and Amortization. Depreciation and amortization expenses mainly relate to our fixed and deferred assets. We depreciate our property, plant and equipment using the straight-line method over their estimated useful lives, after taking into consideration their estimated residual value. We depreciate most of our telecommunication equipment over seven years. Depreciation and amortization expenses increased by 44.1%, from RMB5.73 billion in 2000 to RMB8.26 billion in 2001. Depreciation and amortization as a percentage of total operating revenue increased from 24.2% in 2000 to 28.1% in 2001. The increase in depreciation and amortization expenses was the largest factor contributing to our increase in operating expenses in 2001, accounting for 44.7% of the total increase in our operating expenses of RMB5.66 billion. The increase in depreciation and amortization expenses was primarily the result of an increase in capital expenditures, in particular the further expansion of our cellular and long distance, data and Internet networks, which led to an increase in total fixed assets. Depreciation and amortization expenses in our cellular business increased by 54.1%, from RMB3.61 billion in 2000 to RMB5.56 billion in 2001. Depreciation and amortization expenses in our long distance, data and Internet business increased 3.1 times, from RMB0.30 billion in 2000 to RMB0.95 billion in 2001.

Personnel. Despite the growth of our business in 2001, we aimed to control the increase in personnel costs by increasing the productivity of our work force. We employed 29,973 employees at the end of 2001, a decrease of 15.4% from 35,432 employees at the end of 2000. Personnel costs increased by 40.7% in 2001, from RMB1.77 billion in 2000 to RMB2.49 billion in 2001. Personnel costs as a percentage of total operating revenue increased from 7.5% in 2000 to 8.5% in 2001. The increase in personnel costs resulted from our reform of our compensation structure in order to adapt to a changing competitive human resources market, promote competition for positions within our company and provide incentives to employees. Our compensation structure is tied both to individual performance and to company performance. Personnel costs in our cellular business increased 3.1 times, from RMB0.36 billion in 2000 to RMB1.11 billion in 2001. Personnel costs in our paging business declined by 31%, from RMB1.35 billion in 2000 to RMB0.94 billion in 2001, reflecting a decreased number of employees in the business. Personnel costs in our long distance, data and Internet business increased by 8.2 times from RMB0.05 billion in 2000 to RMB0.41 billion in 2001.

Selling and Marketing. Selling and marketing expenses consisted mainly of sales commission to dealers and promotion and advertising expenses. Selling and marketing expenses increased by 45%, from RMB2.49 billion in 2000 to RMB3.61 billion in 2001. Selling and marketing expenses as a percentage of total operating revenue increased from 10.5% in 2000 to 12.2% in 2001. Overall growth in selling and marketing expenses primarily reflected increased sales commissions paid, resulting from the expansion of our businesses and growth in new subscribers, as well as increase in our churn rate. Increased selling and marketing expenses also reflected increased expenditure on market development and promotion of new products. Sales commissions increased by 59.2%, from RMB1.74 billion in 2000 to RMB2.82 billion in 2001. Advertising and promotion expenses increased by 9.9%, to RMB0.79 billion. Sales and marketing expenses in our cellular business increased by 74.3%, from RMB1.43 billion in 2000 to RMB2.49 billion in 2001. Sales and marketing expenses in our long distance, data and Internet business increased by 141%, from RMB0.29 billion in 2000 to RMB0.71 billion in 2001. The increase in sales and marketing expenses was partially offset by a 49.8% decrease in such expenses in our paging business, from RMB0.95 billion in 2000 to RMB0.48 billion in 2001.

General, Administrative and Other Expenses. General, administrative and other expenses primarily include operating lease expenses, repair and maintenance costs, provision for doubtful debts and provisions for impairment in the value of property, plant and equipment. We make provision for all outstanding accounts receivable that are overdue for more than three months. Other components of general, administrative and other expenses include insurance expenses, general office expenses and travel expenses. General, administrative and other expenses increased by 46.9%, from RMB3.74 billion in 2000 to RMB 5.50 billion in 2001. As a percentage of total operating revenue, general and administrative expenses increased from 15.8% in 2000 to 18.7% in 2001. The increase in general, administrative and other expenses predominantly reflected increases in travel, entertainment and meeting expenses, administrative and management expenses and a provision for impairment of paging assets.

Provision for doubtful debts increased 21.6%, from RMB0.44 billion in 2000 to RMB0.54 billion in 2001, mainly as a result of revenue growth. Provision for doubtful debts increased at a slower rate than the 24.1% increase in total revenues and the 29.3% increase in service revenues, reflecting our continuing efforts to tighten control over bad debt by improving user credit management and enhancing our billing and payment systems. Provision for doubtful debts as a percentage of total services revenue decreased from 2.0% in 2000 to 1.9% in 2001. Provision for doubtful debts in our cellular business increased 45.8%, from RMB0.36 billion in 2000 to RMB0.52 billion in 2001. Provision for doubtful debts decreased as a percentage of total cellular services revenue, from 2.9% in 2000 to 2.5% in 2001.

In 2001 we recorded provision for impairment of assets of RMB0.63 billion in our paging business. The provision reflected our assessment that the book value of paging assets, including communications equipment and goodwill relating to our paging business, exceeded the recoverable value of such assets as determined according to the discounted future cash flow method. This discrepancy reflected the decrease in paging revenue, decline in number of customers and operating losses in some of the provinces in which our paging business operates. The write-down reflects our assessment of the difference between the book-value of our paging assets and the recoverable value of these assets. This assessment required us to make certain assumptions regarding the discount rate and the period of cash flow, and included our assessment of factors including churn rates, average monthly usage fees, additional cash flows from new customers and the impact of future cost changes.

Cost of Telecommunications Products Sold. Costs of telecommunication products sold decreased by 38.8%, from RMB2.19 billion in 2000 to RMB1.34 billion in 2001, primarily due to our withdrawal from the sale of pagers. Pager sales decreased from RMB1.81 billion in 2000 to RMB0.55 billion in 2001.

Net Income

Operating Income. Total operating revenue and total service revenue in 2001 compared to 2000 increased by 24.1% and 29.3%, respectively, while operating expenses increased by 30.6% in the same period. Operating income increased by 0.8%, from RMB5.22 billion in 2000 to RMB5.26 billion in 2001. Operating income from our cellular business grew by 61%, from RMB3.49 billion in 2000 to RMB5.61 billion in 2001. Operating income from our long distance, data and Internet businesses grew by 89%, from RMB0.37 billion in 2000 to RMB0.70 billion in 2001. The growth in operating income from our cellular business and our long distance, data and Internet businesses was largely offset by a decline in operating income from our paging business, which had an operating loss of RMB0.97 billion, compared to operating income of RMB1.38 billion in 2000. Our operating margin decreased from 22.0% in 2000 to 17.9% in 2001.

Interest Income and Interest Expenses. Interest income increased 19.9%, from RMB1.75 billion in 2000 to RMB2.10 billion in 2001, primarily due to interest revenue from short-term bank deposits of proceeds of our initial public offering in June 2000. Interest expenses increased by 40.9%, from RMB1.35 billion in 2000 to RMB1.91 billion in 2001, due to an increase in bank loans, which were primarily to finance our network buildout. Interest-bearing debt increased from RMB35.65 billion at the end of 2000 to RMB44.27 billion at the end of 2001. After adjusting for foreign exchange losses and gains, which were not significant, net interest income was RMB0.18 billion in 2001, a 54.6% decrease from RMB0.40 billion in 2000.

Income Tax. Income tax expenses decreased from RMB1.10 billion in 2000 to RMB1.04 billion in 2001. Our effective tax rate in 2001 was 19.1%, compared to an effective tax rate of 24.7% in 2000. The prevailing statutory income tax rate in China, applicable to us, is 33%. Our effective tax rate in 2001 was lower than 33% because a large portion of interest income, arising from proceeds of our initial public offering deposited at banks in Hong Kong, was not subject to income tax.

Net Income. Net income increased by 37.8%, from RMB3.23 billion in 2000 to RMB4.46 in 2001. Basic net income per share increased by 24.1% in 2001, from RMB0.29 in 2000 to RMB0.36 in 2001. Net income ratio increased from 13.7% in 2000 to 15.2% in 2001. These increases primarily reflected the absence in 2001 of extraordinary losses from the termination of CCF arrangements, which were present in 2000. Net income for 2001 increased 10.5% from net income excluding the loss from CCFs in 2000, and net income ratio decreased from 17.0% on this basis in 2000 to 15.2% in 2001.

Adjusted EBITDA

Adjusted EBITDA represents income before net financial income (expenses), other income (expenses) , taxation, depreciation and amortization, minority interests and, for 2000 and 1999, losses arising from the termination of CCF arrangements. Since the telecommunications business is a capital intensive business, capital expenditure and the level of debts and interest expenses may have a significant impact on net income for companies with similar operating results. Therefore, we believe that, for a growing telecommunications company such as us, EBITDA provides a useful reflection of operating results. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, debt capacity and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. In addition, our adjusted EBITDA as described in this annual report is not necessarily comparable with similarly titled measures for other companies.

Adjusted EBITDA increased by 23.4%, from RMB10.96 billion in 2000 to RMB13.53 billion in 2001. The increase in adjusted EBITDA primarily reflected the growth in our operating revenue. Adjusted EBITDA margin (adjusted EBITDA as a percentage of total operating revenue) remained stable at 46.0% in 2001, as compared to 46.2% in 2000, notwithstanding the decline in our paging business. This reflected primarily the continued growth in contribution to revenues by our cellular business, which has relatively high adjusted EBITDA margins, and our continuing efforts to improve internal management and control operating expenses.

Cellular Business. Adjusted EBITDA for our cellular business increased by 57.5%, from RMB7.09 billion in 2000 to RMB11.17 billion in 2001, while adjusted EBITDA margin for our cellular business decreased from 55.1% in 2000 to 52.4% in 2001. The increase in adjusted EBITDA was primarily due to the continued growth in our cellular business, both in items of subscribers and revenue. The decrease in our cellular EBITDA margin was mainly due to intensifying market competition, increasing penetration of the cellular market and the increases in operating expenses as discussed above under "— Operating Expenses."

Long Distance, Data and Internet Businesses. Adjusted EBITDA for our long distance, data and Internet businesses increased by 145.2%, from RMB0.67 billion in 2000 to RMB1.65 billion in 2001. Adjusted EBITDA margin for these businesses decreased from 43.4% in 2000 to 36.9% in 2001, primarily due to increased operating expenses as discussed above.

Paging Business. Adjusted EBITDA for our paging business decreased by 75.4%, from RMB3.21 billion in 2000 to RMB0.79 billion in 2001 and adjusted EBITDA margin decreased from 32.4% in 2000 to 16.3% in 2001. These decreases resulted from a sharp decline in our paging revenue reflecting negative growth in the paging industry overall and a significant provision for impairment of certain down of paging assets as discussed above.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Total revenue increased by 35.8%, from RMB17.45 billion in 1999 to RMB23.69 billion in 2000. Our service revenue increased by 50.7%, from RMB 14.44 billion in 1999 to RMB21.77 billion in 2000. Net income increased by nearly four times, from RMB840 million in 1999 to RMB3.23 billion in 2000 and basic net income per share increased from RMB0.09 in 1999 to RMB0.29 in 2000. Adjusted EBITDA increased by 68.4%, from RMB6.51 billion in 1999 to RMB10.96 billion in 2000. Adjusted EBITDA margin increased from 37.3% in 1999 to 46.2% in 2000.

Operating Revenue

Our total operating revenue increased by 35.8%, from RMB17.45 billion in 1999 to RMB23.69 billion in 2000, primarily due to the rapid growth in our cellular business and the launch of our circuit switched long distance telephony, data and Internet services in 2000.

Cellular Revenue

Our cellular business recorded rapid growth in 2000. As cellular subscribers increased 207.4%, from 4.15 million at the end of 1999 to 12.78 million at the end of 2000, revenue from our cellular business also increased 120.6%, from RMB5.84 billion in 1999 to RMB12.88 billion in 2000 and surpassed our paging business to become our largest revenue source. Service revenue from our cellular business increased by 129.3%, from RMB 5.31 billion in 1999 to RMB12.19 billion in 2000. ARPU per month of post-paid cellular subscribers decreased by 22.2%, from RMB165.8 in 1999 to RMB129.0 in 2000, due primarily to the decrease in connection fees as well as the reduction in average minutes of usage, or MOU, per subscriber per month, which was mainly caused by the increase of low-usage subscribers as a percentage of the total number of subscribers. We launched our pre-paid cellular services in 2000. ARPU per month for pre-paid subscribers was RMB75.1 in 2000.

Usage Fee. Revenue from usage fees for cellular business increased by 157.4%, from RMB3.19 billion in 1999 to RMB8.21 billion in 2000. The increase was primarily due to the increase in the number of cellular subscribers. Usage fees accounted for 67.4% of the total service revenue from cellular business (which excludes sales of cellular-related telecommunications products) in 2000, compared to 60.0% in 1999. Revenue from pre-paid cellular service was RMB650 million in 2000, representing 5.3% of the total service revenue from cellular business in 2000.

Monthly Fee. Revenue from monthly fees for cellular service increased by 121.4%, from RMB1.12 billion in 1999 to RMB2.48 billion in 2000, primarily due to the increase in the number of cellular subscribers. Monthly fees accounted for 20.3% of the total service revenue from cellular business in 2000, compared to 21.0% in 1999.

Connection Fee. Revenue from cellular connection fees decreased 22.4% from RMB670 million in 1999 to RMB520 million in 2000, accounting for 4.2% of total service revenue from our cellular business in 2000, compared to 12.7% in 1999, which reflected the further decline of the tariff level of connection fees.

Interconnection Revenue. Interconnection revenue from our cellular business increased 262.3%, from RMB210 million in 1999 to RMB750 million in 2000, primarily due to an increase in incoming calls from other networks as a result of the expansion of our network coverage and the growth of our cellular subscriber base.

Other Revenue. Other revenues, primarily revenues from value added services, increased by 79.9%, from RMB 0.13 billion in 1999 to RMB0.23 billion in 2000, primarily reflecting the launch of our value-added services.

Sales of Cellular-Related Telecommunications Products. Revenue from sales of cellular-related telecommunications products, primarily SIM cards and handsets, increased by 32.1% from RMB530 million in 1999 to RMB700 million in 2000, primarily due to the increase in sales of SIM cards as a result of the increase in new cellular subscribers, partially offset by the decrease in the average selling price of SIM cards.

Long Distance, Data and Internet Revenue

In 2000, we launched circuit switched long distance telephony, data and Internet services. We also continued to develop our IP telephony services launched in June 1999. Although we were still at the early stage in developing these businesses, revenue from long distance, data and Internet businesses increased more than twelve times from RMB80 million in 1999 to RMB1.1 billion in 2000, and became a new source of revenue growth. This increase was primarily attributable to the expansion of our nationwide network coverage and the launch of various new services, which attracted additional subscribers and resulted in an increase in total minutes of usage. Our long distance, data and Internet business also provided transmission lines to our cellular business and the related inter-company revenue was RMB460 million in 2000.

Revenue from IP Telephony Services. Revenue from long distance, data and Internet businesses in 1999 consisted mostly of revenue from the IP telephony services. Revenue from IP telephony services increased to RMB540 million in 2000 from RMB80 million in 1999, mainly due to the increase in total usage.

Revenue from New Services. In addition to revenue from IP telephony services, revenue from long distance, data and Internet businesses in 2000 included RMB 240 million of revenue from circuit switched long distance telephony services and RMB 320 million of total revenue from data, Internet access, Internet data centers and leased line services.

Paging Revenue

Revenue from our paging business decreased by 15.8% from RMB11.53 billion in 1999 to RMB9.71 billion in 2000. Revenue from paging services (which excludes sales of pagers) decreased by 6.3% from RMB9.05 billion in 1999 to RMB8.48 billion in 2000. The decrease in paging business revenue, despite a slight increase in paging subscribers, was primarily due to a further reduction in service tariff caused by competition in the paging market and our gradually exiting the unprofitable pager sales business.

Monthly Fee. Our revenue from paging services was primarily from monthly fees, representing 94.2% of the total service revenue from our paging business in 2000. Despite a slight increase in the number of paging subscribers, our revenue from monthly fees decreased by 10.2% from RMB8.9 billion in 1999 to RMB7.99 billion in 2000, as a result of decline in paging tariffs.

Other Revenue. Other revenues from our paging business included wireless messaging service fees, paging number selection fees and other value-added service fees, as well as commissions from the sales of cellular services for Unicom Group. These revenues increased rapidly from RMB50 million in 1999 to RMB420 million in 2000, excluding the inter-company commission revenue of RMB180 million from the distribution of our own cellular services.

Sales of Paging-Related Telecommunications Products. Revenue from the sales of pagers decreased by 50.4%, from RMB2.48 billion in 1999 to RMB1.23 billion in 2000, primarily due to our gradually exiting the unprofitable pager sales business. Pager sales revenue as a percentage of our total paging revenue decreased from 21.5% in 1999 to 12.7% in 2000.

Operating Expenses

Total operating expenses increased by 26.2% from RMB14.63 billion in 1999 to RMB18.47 billion in 2000, which was significantly lower than the revenue growth rate of 35.8% and the service revenue growth rate of 50.7% for the same period . As a percentage of total operating revenue, total operating expenses decreased from 83.9% in 1999 to 78.0% in 2000.

Leased Line. We continued to expand our nationwide fiber optic network in 2000 which enabled us to reduce leased line expenses of our cellular and paging businesses by utilizing our own transmission network. Despite such usage and a decrease in leased line tariffs, total leased line expenses increased from RMB1.1 billion in 1999 to RMB1.16 billion in 2000, primarily due to our rapid business expansion and increased requirements for transmission capacity in 2000. However, as a percentage of total operating revenue, leased line expenses decreased from 6.3% in 1999 to 4.9% in 2000.

Interconnection Expenses. Due to the expansion of our cellular network, increase in subscribers, and the launch of our long distance telephony services, interconnection expenses increased 99%, from RMB690 million in 1999 to RMB1.38 billion in 2000. As a percentage of total operating revenue, interconnection expenses increased from 4.0% in 1999 to 5.8% in 2000. Interconnection expenses for the cellular business increased 83.0%, from RMB690 million in 1999 to RMB1.27 billion in 2000. We started incurring interconnection expenses for our long distance telephony services and data services in 2000, which amounted to about RMB110 million for this period.

Depreciation and Amortization. Depreciation and amortization expenses increased by 55.4%, from RMB3.69 billion in 1999 to RMB5.73 billion in 2000. Depreciation and amortization as a percentage of total operating revenue increased from 21.2% in 1999 to 24.2% in 2000, mainly due to the increase in capital expenditure along with our network expansion.

Personnel. Despite the rapid growth of our business in 2000, we were able to control the increase in personnel costs by increasing the productivity of our work force. We employed 35,400 employees at the end of 2000, compared to 33,088 employees at the end of 1999. Although personnel costs increased to RMB1.77 billion in 2000 from RMB1.71 billion in 1999, personnel costs as a percentage of total operating revenue decreased from 9.8% in 1999 to 7.5% in 2000.

Selling and Marketing. Selling and marketing expenses increased by 59.6%, from RMB1.56 billion in 1999 to RMB2.49 billion in 2000. Selling and marketing expenses as a percentage of total operating revenue increased from 8.9% in 1999 to 10.5% in 2000. Sales commission increased from RMB910 million in 1999 to RMB1.74 billion in 2000, primarily due to the rapid subscriber growth and the launch of new services. Promotion and advertising expenses increased from RMB620 million in 1999 to RMB720 million in 2000.

General, Administrative and Other Expenses. General, administrative and other expenses increased by 44.4%, from RMB2.59 billion in 1999 to RMB3.74 billion in 2000. As a percentage of total operating revenue, such expenses increased from 14.8% in 1999 to 15.8% in 2000. Provision for doubtful debts increased 55.2%, from RMB290 million in 1999 to RMB450 million in 2000, mainly as a result of revenue growth. Provision for doubtful debts in our cellular business increased 89.5%, from RMB190 million in 1999 to RMB360 million in 2000, although the bad debt rate decreased. Provision for doubtful debts in our paging business slightly decreased in 2000 as compared to 1999.

Cost of Telecommunication Products Sold. Costs of telecommunications products sold decreased 33.4%, from RMB3.29 billion in 1999 to RMB2.19 billion in 2000, primarily due to the gradual reduction in our sale of pagers.

Net Income

Operating Income. Total operating revenue in 2000 increased by 35.8% from 1999, while operating expenses increased by 26.2% in 2000. Operating income increased by 85.4%, from RMB2.82 billion in 1999 to RMB5.22 billion in 2000, mainly due to rapid growth in total operating revenue and effective control of operating expenses. Operating margin increased from 16.1% in 1999 to 22.0% in 2000.

Interest Income and Interest Expense. Interest income increased from RMB110 million in 1999 to RMB1.75 billion in 2000, which mainly consisted of interest income arising from proceeds of our initial public offering in June 2000. Interest expenses increased from RMB810 million in 1999 to RMB1.35 billion in 2000, due to an increase in bank loans. Interest-bearing debt increased from RMB20.13 billion at the end of 1999 to RMB35.65 billion at the end of 2000. Net interest income was RMB400 million in 2000, compared to RMB700 million of net interest expense in 1999.

Losses Arising From Termination of CCF Arrangements. Losses from termination of the CCF arrangements amounted to RMB220 million in 1999 and RMB1.19 billion in 2000.

Income Tax. Income tax expenses were RMB560 million in 1999 and RMB1.1 billion in 2000, reflecting an effective tax rate of 31.6% and 24.6%, respectively. The prevailing statutory income tax rate in China, applicable to us, is 33%. Our effective tax rate in 2000 was lower than 33% because a large portion of interest income, arising from proceeds of our initial public offering deposited at banks in Hong Kong was not subject to income tax.

Net Income. Net income increased by approximately four times from RMB840 million in 1999 to RMB3.23 billion in 2000. Basic net income per share increased to RMB0.29 in 2000 from RMB0.09 in 1999. Net income ratio increased from 4.8% in 1999 to 13.7% in 2000. Excluding losses from the termination of China-China-Foreign arrangements, net income increased from RMB990 million in 1999 to RMB4.03 billion in 2000, while the related net income ratio increased to 17.0% in 2000.

Adjusted EBITDA

Adjusted EBITDA increased by 68.4%, from RMB6.51 billion in 1999 to RMB10.96 billion in 2000. The increase in adjusted EBITDA reflected the rapid growth in our operating revenue and the effective control of our operating expenses. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 37.3% in 1999 to 46.2% in 2000, primarily due to the growth of our operating revenue and further development of high margin businesses.

Cellular Business. Adjusted EBITDA for our cellular business increased 2.5 times from RMB2.84 billion in 1999 to RMB7.09 billion in 2000, while adjusted EBITDA margin for our cellular business also increased from 48.7% in 1999 to 55.1% in 2000, primarily due to the rapid growth of cellular revenue and increased scale efficiency.

Long Distance, Data and Internet Businesses. Adjusted EBITDA for our long distance, data and Internet businesses increased from RMB40 million in 1999 to RMB670 million in 2000. Adjusted EBITDA margin for these businesses decreased from 50.1% in 1999 to 43.4% in 2000, primarily due to an increase in leased line expenses and selling and marketing expenses as a percentage of revenue.

Paging Business. Adjusted EBITDA for our paging business decreased from RMB3.62 billion in 1999 to RMB3.21 billion in 2000. Adjusted EBITDA margin for our paging business increased from 31.4% in 1999 to 32.4% in 2000, primarily due to a rapid decrease in leased line expenses for the paging business and a reduction in the unprofitable pager sales business.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows

As of the end of 2001, we had RMB18.41 billion of cash and cash equivalents and RMB24.92 billion of short-term bank deposits. As of the end of 2001, our working capital (current assets minus current liabilities) was RMB21.04 billion, compared to working capital of RMB30.29 billion at the end of 2000. The decrease in working capital resulted primarily from increased capital expenditures. Taking into account available financing, we believe that we have access to sufficient working capital for our present requirements.

The following table sets forth cash inflows and outflows in 1999, 2000 and 2001.

	For the year ended December 31,		
	1999	2000	2001
	(RMB in millions)		
Net cash inflows from operating activities	6,856	10,229	13,249
Net cash outflows from returns on investments and servicing of finance and taxation	(2,344)	(885)	(2,171)
Net cash outflows from investing activities	(13,930)	(30,551)	(46,125)
Net cash outflows before financing activities	(9,418)	(21,207)	(35,047)
Net cash inflows from financing activities	11,084	59,921	8,743
Increase (decrease) in cash and cash equivalents	1,666	38,714	(26,304)

Net cash inflows from operating activities increased by 29.5%, from RMB10.23 billion in 2000 to RMB13.25 billion in 2001, mainly reflecting the growth in our businesses.

Net cash outflows from returns on investments and servicing of finance and taxation were RMB2.17 billion in 2001, compared to RMB0.89 billion in 2000. This increase in outflows in 2001 principally reflected increased taxation.

Net cash outflows from investing activities were RMB46.13 billion in 2001, compared to net cash outflows of RMB30.55 billion in 2000. This increase in net cash outflows from investing activities in 2001 primarily reflected increased purchases of property, plant and equipment for our network expansion and an increase in short-term bank deposits.

Net cash inflows from financing activities were RMB8.74 billion in 2001, compared to RMB59.92 billion in 2000. This decrease in net cash inflows from financing activities primarily reflected the fact that in 2000 we received net proceeds for our IPO of RMB45.28 billion, which was partially offset by RMB7.39 in repayment of CCF loans, and also reflected increased repayment of bank loans in 2001.

Indebtedness and Capital Structure

The following table sets forth the amount of cash, assets, short-term and long-term debt, equity as well as debt-to-assets and debt-to-equity ratios as of the end of 1999, 2000 and 2001.

	As of December 31,		
	1999	2000	2001
	(RMB in millions, except percentages)		
Cash and cash equivalent and short-term bank deposits	6,211	52,556	43,335
Total assets	45,366	112,829	127,905
Short-term debt[(1)]	7,894	8,501	7,933
Long-term debt	12,234	27,151	36,337
Minority interests	2,530	883	829
Shareholders' equity	8,538	57,224	61,681
Debt-to-assets ratio[(2)]	72.6%	39.0%	42.2%
Debt-to-equity ratio [(3)]	265.4%	63.9%	73.1%

(1) Including loans from CCF joint ventures in 1999.
(2) Debt-to-assets ratio = (long term debt + short term debt + minority interests)/(long term debt + short term debt + minority interests + shareholders' equity).
(3) Debt-to-equity ratio = (long term debt + short term debt + minority interests)/shareholders' equity.

Our debt-to-assets ratio increased from 39.0% at the end of 2000 to 42.2% at the end of 2001. Our debt-to-equity ratio increased from 63.9% at the end of 2000 to 73.1% at the end of 2001. The sum of our long-term and short-term debt exceeded the amount of our cash and cash equivalents and short-term bank deposits by only RMB 0.94 billion as of December 31, 2001. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs.

Outstanding short-term and long-term bank loans, all of which are RMB-denominated, increased from RMB35.65 billion at the end of 2000 to RMB44.27 billion at the end of 2001. Our long-term bank loans generally bear floating interest rates that ranged from 5.46% to 7.65% per annum in 2001 with maturity through 2007. The loan agreements do not include financial performance or other covenants which materially restrict our operations or those of China Unicom Corporation Limited, our principal operating subsidiary in China. As of December 31, 2001, short-term bank loans of approximately RMB200 million and long-term bank loans of approximately RMB3.4 billion were guaranteed by Unicom Group.

Contractual Obligations and Commercial Commitments

The following tables set forth the amount of our outstanding contractual and commercial commitments as of December 31, 2001.

Contractual Obligations	Total	Due in 2002	Due in 2003	Due in 2004	Due in 2005	Due in 2006	Due after 2006
	Payments Due by Period (RMB millions)						
Short-term bank loans[1]	7,089	7,089	-	-	-	-	-
Long-term bank loans[2]	37,181	844	9,340	4,600	16,337	4,277	1,783
Finance lease obligations[3]	109	8	8	7	7	6	73
Capital commitments[4]	10,036	10,036	-	-	-	-	-
Operating lease[4]	3,518	1,955	260	216	176	151	760
Total	57,933	19,932	9,608	4,823	16,520	4,434	2,616

(1) See consolidated financial statements, Note 27, "Short-term Bank Loans".
(2) See consolidated financial statements, Note 28, "Long-term Bank Loans".
(3) See consolidated financial statements, Note 29, "Obligations Under Finance Leases".
(4) See consolidated financial statements, Note 35, "Contingencies and Commitments".

Other than operating leases commitment as disclosed above, our wholly-owned subsidiary China Unicom Corporation Limited has entered into a lease agreement with Unicom Group and its subsidiary Unicom New Horizon to lease CDMA network capacity in our cellular service areas. See "Business Overview — Cellular Services — CDMA Cellular Services — Our Leasing of CDMA Networks from Unicom Group" under Item 4, "Major Shareholders and Related party Transactions — Related Party Transactions — Leasing of CDMA Network Capacity" under Item 7 and Note 35(c) "Contingencies and commitments — commitments of CDMA networks" to the consolidated financial statements.

Capital Expenditures

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	Year Ended December 31,			
	1999	**2000**	**2001**	**2002**
	(RMB in billions)			
Cellular	8.29	17.28	20.78	7.88
Long distance, data and Internet	1.39	5.71	7.33	8.50
Paging	3.02	2.19	0.55	0.45
Others	–	–	2.59	4.89
Total	12.70	25.18	31.25	21.72

Capital expenditures in 2001 totaled RMB31.25 billion. Capital expenditures in our cellular business was RMB20.78 billion, mostly relating to the expansion of our GSM cellular network. The capacity of our GSM cellular network increased from 19.18 million subscribers at the end of 2000 to 37.4 million subscribers at the end of 2001. Capital expenditures in our long distance, data and Internet business was RMB7.33 billion. Capital expenditures in our long distance business were mainly for the establishment of long distance switching centers in provincial capitals to complete their coverage of over 300 local networks. Capital expenditures in our data business concentrated on the construction of our broadband backbone network and on local transmission and access facilities. Capital expenditures in our Internet business included the construction of Internet access facilities, Internet data centers and web site portals. Capital expenditure in our paging business was RMB0.55 billion, mostly on upgrading existing networks and developing new technology and services. We also had other capital expenditures of RMB2.59 billion in 2001, which included expenditures for billing, customer service and information systems, operations maintenance and research and development.

We plan to invest approximately RMB21.72 billion in capital expenditures in 2002, including RMB7.88 billion in our cellular business, RMB8.50 billion in our long distance, data and Internet businesses, RMB0.45 billion in our paging business and RMB4.89 billion in other expenditures. These capital expenditures will focus on enhancing coverage of our existing networks, improving and expanding backbone transmission, local transmission and access networks and other key network infrastructure, and continuing to develop and implement billing, customer service, information and other support systems and suitable technologies and applications.

We expect to fund our capital expenditure needs with a combination of cash generated from operating activities, capital market financing and short-term and long-term bank loans. See “Risk Factors – Risks Relating to Our Business – We expect to have significant capital expenditure requirements in the future, and our inability to fund these requirements may adversely affect our growth and profitability” under Item 3.

ADJUSTMENTS OF TARIFFS, INTERCONNECTION SETTLEMENT AND SPECTRUM USAGE FEES

In December 2000, the Ministry of Information Industry, the State Development Planning Commission and the Ministry of Finance jointly issued a tariff adjustment circular, which requires tariff adjustments for a wide range of telecommunications services. Effective on February 21, 2001, we had implemented this tariff adjustments mandate. Overall, the adjustments have:

- streamlined various tariff structure by providing unified call rates or simplified call schedules;
- reduced domestic and international long distance call tariffs for circuit switched telephony services, Internet access tariffs and leased line tariffs;
- eliminated all call surcharges; and
- provided for greater flexibility for operators to set tariffs in certain service areas, such as deregulating tariffs for IP telephony services and for certain value-added voice, data and Internet services.

In general, we expect to benefit from these tariff adjustments because of savings from reduced leased line expenses, which is likely to exceed the adverse effect of the decline in long distance telephony tariffs. We also expect these adjustments to further stimulate the growth of China’s telecommunications market. See “Business Overview” under Item 4 for the details on these tariff adjustments.

In addition, the Ministry of Information Industry adjusted the existing interconnection revenue sharing and settlement arrangements, effective retroactively from March 21, 2001 for a period of one ear. See “Regulatory and Related Matters — Interconnection Arrangements” under Item 4. We do not expect these adjustments to have a material effect on our results of operations or financial conditions.

Furthermore, we were notified by the relevant government authorities in May 2002 of an increase in spectrum usage fees. According to the current standardized fee scale, spectrum usage fees for GSM networks are charged at the rate of RMB1 million per MHz of frequency (upward and downward frequencies are aggregately charged as one MHz of frequency) while CDMA networks are not subject to the payment of any spectrum usage fees. The standard spectrum usage fees for GSM networks and CDMA networks will be adjusted with effect from July 1, 2002, progressively over a period of three years and a period of five years respectively. After the completion of the adjustment, the spectrum usage fees for GSM networks and CDMA networks will be charged at the annual rate of RMB15 million per MHz of frequency (upward and downward frequencies are separately charged). The current allocation of spectrum usage fees between Unicom Group and us based on the relative number of subscribers remains unchanged. We estimate that the financial impact to us of such increase in expenses on an after-tax basis will be approximately RMB64.3 million, RMB211.7 million, RMB292.1 million, RMB318.9 million and RMB345.7 million for the first year, second year, third year, fourth year and fifth year, respectively, after the adjustment takes effective on July 1, 2002, assuming that we will continue to offer both GSM and CDMA cellular services in each of these years and the number of our cellular subscribers relative to that of Unicom Group will be the same as such ratio at the end of 2001 for each of these years.

US GAAP RECONCILIATION

Our consolidated financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain material respects from US GAAP. These differences relate primarily to the treatments of the upfront non-refundable revenue and the related direct incremental costs, employees' housing benefits, revaluation of properties performed in connection with the reorganization, impairment of long-lived assets, deferred taxation and the treatment of the grant of share warrants for the terminations of CCF arrangements in 2000. Except for the accounting treatments of the upfront non-refundable revenue and the related incremental costs, deferred taxation and the grant of share warrants, there are no material differences between Hong Kong GAAP and US GAAP that affect our net income or shareholders' equity. See Note 41 to the consolidated financial statements included in this annual report.

Item 6. Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning our current directors and executive officers.

Name	Age	Position
Yang Xian Zu	62	Chairman of the Board of Directors; Executive Director; Chief Executive Officer
Wang Jianzhou	53	Executive Director; President
Shi Cuiming	62	Executive Director; Executive Vice President
Tan Xinghui	40	Executive Director; Vice President
Liu Yunjie	59	Vice President
Ge Lei	61	Non-Executive Director
Craig O. McCaw	52	Independent Non-Executive Director
Lee Hon Chiu	73	Independent Non-Executive Director
Wu Jing Lian	72	Independent Non-Executive Director
C. James Judson	57	Alternate Director to Craig O. McCaw

Yang Xian Zu is Chairman of the Board of Directors, an Executive Director and Chief Executive Officer of Unicom responsible for our overall management. Mr. Yang, a senior engineer, graduated in 1965 from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications. From 1983 to 1990, Mr. Yang served as Deputy Director General of the Posts and Telecommunications Administration of Hubei Province and as Director General of the Posts and Telecommunications Administration of Henan Province. From 1990 to early 1999, Mr. Yang served as Vice Minister of the Ministry of the Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. In these capacities, Mr. Yang was involved in the management of Unicom Group from a strategic level. Since 1999, Mr. Yang has served as Chairman of the Board of Directors and President of Unicom Group and was re-appointed as Chairman in February 2001. With thirty-five years of experience in China's telecommunications industry, Mr. Yang has extensive knowledge and experience in telecommunications operations, technology and management.

Wang Jianzhou is an Executive Director and President of Unicom responsible for our day-to-day management and operations. Mr. Wang, a senior engineer, graduated in 1985 from the Department of Management Engineering at Zhejiang University with a Master's degree. From 1992 to 1996, Mr. Wang served as Deputy Director General and later Director of the Posts and Telecommunications Bureau of Hangzhou City and Deputy Director of the Posts and Telecommunications Administration of Zhejiang Province. From 1996 to 1999, Mr. Wang served as Director General of the Department of Planning and Construction of the Ministry of Posts and Telecommunications and later as Director General of the Department of General Planning of the Ministry of Information Industry. In these capacities, Mr. Wang was involved in the management of Unicom Group from a strategic level. Since early 1999, Mr. Wang has served as a Director and Executive Vice President of Unicom Group and was appointed as President and re-appointed as a Director in February 2001. With many years of experience in China's telecommunications industry, Mr. Wang has extensive knowledge and experience in telecommunications operations and management.

Shi Cuiming is an Executive Director and Executive Vice President of Unicom. Mr. Shi assists our Chairman of the Board of Directors and President in managing our day-to-day management and operations and also is responsible for finance. Mr. Shi, a senior economist, graduated in 1963 from the Department of Management Engineering at the Beijing University of Posts and Telecommunications. From 1981 to 1987, Mr. Shi served as Deputy Director of the Department of Postal Economic Research of the Ministry of Posts and Telecommunications and as Deputy Director General of the Bureau of Finance of the Ministry of posts and telecommunications. From 1987 to 1997, Mr. Shi served as Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of posts and telecommunications. From 1997 to early 1999, Mr. Shi served as Chairman of the Board of Directors of China Telecom (Hong Kong) Group and Chairman of the Board of Directors of China Telecom (Hong Kong) Limited. Since early 1999, Mr. Shi has served as a Director and Vice President of Unicom Group and was re-appointed as a Director in September 2000. With thirty-eight years of experience in China's telecommunications industry, Mr. Shi has extensive knowledge and experience in telecommunications operations, technology and management.

Tan Xinghui is an Executive Director and Vice President of Unicom. Mr. Tan assists our President in administration and media relations. Mr. Tan, a senior engineer, graduated from the Department of Microwave Communications at the Beijing University of Posts and Telecommunications in 1983. From 1987 to early 1996, Mr. Tan served as an engineer in the Department of Transportation Project of China International Engineering Consulting Corporation and Deputy General of the Bureau of Transportation and Energy of the State Planning Committee. Since early 1996, he has served as Deputy Director and later Director of the Planning and Marketing Department and General Manager of the Department of Operation Maintenance and Interconnection of Unicom Group. Mr. Tan has considerable experience in planning and management in the telecommunication industry.

Liu Yunjie is a Vice President of Unicom. Mr. Liu assists our President in managing the technology and operations relating to our data communications services. Mr. Liu, a senior engineer, graduated from the Department of Applied Physics of Beijing University in 1968. From 1983 to 1995, Mr. Liu served as Deputy Director General and later Director General of the Institute of Data of the Ministry of Posts and Telecommunications and Director General of the Bureau of Data Communications of the Ministry of Posts and Telecommunications. From 1995 to 1998, Mr. Liu served as Deputy Director General of the Directorate General of Telecommunications and as Director of the Bureau of Data Communications of the Ministry of Posts and Telecommunications. Mr. Liu was also President of the Institute of Postal Science Research and Planning of the Ministry of Posts and Telecommunications from 1998 to 1999. Since April 1999, Mr. Liu has served as the Chief Engineer and later as a Vice President of Unicom Group. Mr. Liu has 30 years of experience in management and business operations in the telecommunications industry, with expertise in the area of data communications technology.

Ge Lei is a non-executive director of Unicom. Mr. Ge, a senior engineer, graduated from the Telecommunications Engineering Department at the Beijing Posts and Telecommunications University in 1962. Since 1974, he has held numerous positions including Deputy Director of the Equipment Maintenance Bureau, Chairman of the Department of Management Engineering of the Beijing Posts and Telecommunications University, and Deputy Director of the Planning Office, Director of Planning Department, Director of the Education Department, and Director of Telecommunications Administrative Department of the Ministry of Posts and Telecommunications. Since August 1998, Mr. Ge was Chairman and General Manager of Guoxin Paging. In February 2000, he was appointed as a Director of Unicom Group. With thirty-eight years of experience in China's telecommunications industry, Mr. Ge has extensive expertise and management experience in the telecommunications industry.

Craig O. McCaw is an independent non-executive director of Unicom. Mr. McCaw is Chairman and Chief Executive Officer of Eagle River Investments, LLC, a private company that makes strategic investments in telecommunications ventures, and a director of Nextel Communications, Inc, as well as the Chairman of its executive committee. He is also a director of XO Communications, Inc., Chairman of the boards of Teledesic Corporation, and ICO-Teledesic Global Limited. Mr. McCaw established McCaw Cellular Communications, Inc, and XO Communications, Inc. Mr. McCaw has actively participated in both cellular and cable television trade associations over the years and is a member of the United States National Security Telecommunications Advisory Committee by Presidential appointment. In May 2000, he was appointed as a Non-Executive Director. Mr. McCaw graduated from Stanford University in 1973.

Lee Hon Chiu is an independent non-executive director of Unicom. Mr. Lee serves as a member of the Process Review Panel for the Securities and Futures Commission of Hong Kong and Chairman of the Standing Committee on Directorate/Judicial Salaries and Conditions of Service appointed by the Hong Kong SAR Government. He is also Chairman of the Council of the Chinese University of Hong Kong, a non-executive Director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, The Hong Kong & China Gas Company Limited, and a director of a number of other Hong Kong companies. In April 2000, he was appointed as a Non-Executive Director. Mr. Lee obtained a Bachelor of Science Degree in Electrical Engineering from Massachusetts Institute of Technology in 1952. He later obtained a Master of Science Degree in Electronics from Stanford University in 1953.

Wu Jing Lian is an independent non-executive director of Unicom. Mr. Wu is a senior researcher at the Development Research Center of the State Council and a professor at the Graduate School of Chinese Academy of Social Sciences. Mr. Wu graduated from Fudan University, and was previously a Deputy Director of the Programming Officer for Economic Reform of the State Council. In April 2000, he was appointed as a Non-Executive Director. Mr. Wu was also a visiting scholar at Yale University, a visiting professor at the Asia-Pacific Research Center of Stanford University and a visiting researcher at Massachusetts Institute of Technology.

C. James Judson is an alternate director to our independent non-executive director Craig O. McCaw. Mr. Judson is the Vice President and General Counsel of Eagle River, Inc. and a member of Eagle River Investments, LLC, a Kirkland, WA based venture capital fund formed by Craig O. McCaw to focus on investment opportunities in communications. Mr. Judson serves as a Director of Nextel International, Inc. and a member of the Plan Administration Committee. Mr. Judson also serves on the boards of Port Blakely Farms, LP, Garrett and Ring, Inc., The Joshua Green Corporation, and Airbiquity, Inc. Prior to joining Eagle River, Mr. Judson was a partner at Davis Wright Tremaine, a Seattle based law firm with twelve offices worldwide. In May 2001, he was appointed as an Alternate Director to Craig O. McCaw. Mr. Judson attended Stanford University, B.A. cum laude 1966, and Stanford Law School, LLB. 1969 and was the Executive Editor of the Stanford Law Review.

COMPENSATION

The aggregate compensation paid by us to our directors and executive officers as a group in 2001 was approximately RMB21,642 million, including retirement and other benefits.

BOARD PRACTICES

General

Pursuant to our Articles of Association, at each annual general meeting, one-third of our directors retire from office by rotation except for any director holding office as Chairman or Chief Executive Officer. The retiring Directors are eligible for re-election. If any vacancy is not filled at the annual general meeting, the retiring director shall be deemed re-elected. The Board may at any time appoint a new director to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. Each of our directors other than C. James Judson was appointed in 2000. Mr. Judson was appointed as an alternate director to our independent non-executive director Craig O. McCaw in March 2001. Mr. Shi Cuiming, Mr. Tan Xinghui and Mr. Ge Lei was re-appointed as directors in June 2001. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreement.

Audit Committee

The audit committee reviews and supervises our financial reporting process and internal financial controls. The duties of the audit committee include considering the appointment of our external auditor, the audit fee, and any questions regarding resignation or dismissal; reviewing our interim and annual financial statements before submission to the board of directors; discussing problems and reservations arising from the interim and final results, and any matter the auditors may wish to discuss; reviewing the auditor's management; and considering the major findings of internal investigations and management's response. The members of the audit committee are Lee Hon Chiu, Wu Jing Lian and Ge Lei.

Compensation Committee

The compensation committee meets regularly to consider human resources issues, issuance of share options and other matters relating to compensation. In particular, the compensation committee makes recommendations to the Board on executive compensation. The primary duties of the compensation committee are to make recommendations to the board regarding the remuneration structure of the executive directors, to determine specific remuneration packages for the executive directors on behalf of the board, and to consult with the Chairman regarding proposals relating to the remuneration of other executive directors. The compensation committee is also responsible for operating our employee share option scheme and any other incentive scheme as they apply to the executive directors, including determining the granting of options to executive directors. The members of the compensation committee are Lee Hon Chiu, Wu Jing Lian and Ge Lei.

EMPLOYEES

As of December 31, 2001, we had 29,973 employees, 15.5% less than the 35,432 employees we had at the end of 2000, which mostly reflected reduction of the number of paging employees and internal restructuring and out-sourcing of retail and certain other support functions, offset by increases in the number of employees for our long distance, data and Internet businesses. These employees are classified by function as follows:

By Function	Number of Employees	By Business Segment	Number of Employees
Management and administration	4,775	Cellular	13,218
Other general administration	5,771	Long distance	2,038
Marketing and sales	4,500	Data	2,997
Technical, engineering and network maintenance	10,368	Internet	1,049
Retail and customer service	3,850	Paging	10,671
General support	709	Total:	29,973
Total:	29,973		

SHARE OWNERSHIP

As of June 20, 2001, our directors and executive officers as a group own approximately 60,000 shares in Unicom, or less than 0.001% of our issued and outstanding share capital. They as a group hold options for 2,107,000 shares, or less than 0.02% of our issued share capital, including the following options granted under our pre-global offering share option scheme:

Name	Number of Shares Covered	Expiration Date	Exercise Price	Consideration Paid
Yang Xian Zu	525,000	June 22, 2010	HK$15.42	HK$1
Wang Jianzhou	396,200	June 22, 2010	HK$15.42	HK$1
Shi Cuiming	396,200	June 22, 2010	HK$15.42	HK$1
Ge Lei	292,600	June 22, 2010	HK$15.42	HK$1
Tan Xinghui	204,400	June 22, 2010	HK$15.42	HK$1
Liu Yunjie	292,600	June 22, 2010	HK$15.42	HK$1

Stock Incentive Schemes

We retained a compensation consulting firm to help us design stock incentive schemes that align the interests of our management and employees with those of our shareholders and link their compensation with our operating results and share performance.

Pre-Global Offering Share Option Scheme. We have adopted a pre-global offering share option scheme. Options for an aggregate of 27,116,600 shares have been granted to 158 directors and employees under the pre-global offering share option scheme and we do not expect to grant further options under this scheme. The subscription price of a share in respect of any particular option granted under the pre-global offering share option scheme is HK$15.42, the offer price in the Hong Kong public offering portion of our initial public offering, excluding brokerage fees and transaction levy. The period during which an option may be exercised shall not be earlier than 2 years after the date of grant but no later than 10 years after the completion of our initial public offering.

Share Option Scheme. We have also adopted a share option scheme. This plan provides for the grant of options to our directors, senior management and selected technical specialists. We do not intend to grant any options which will be exercisable within two years of the date of grant. We plan to grant options, including those granted under the pre-global offering share option scheme, that cover a total number of ordinary shares not exceeding 2% of the total number of our outstanding shares. In June 2001, we granted 6,724,000 options in total to 56 employees.

On May 13, 2002, our shareholders approved amendments to our share option scheme and pre-global offering share option scheme in an extraordinary shareholders general meeting. The amendments were made mainly to comply with the requirements in the new Chapter 17 of the Hong Kong Listing Rules. Under the amendments, the price for a share payable by a participant upon the exercise of an option will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares on the Hong Kong Stock Exchange on the grant date in respect of such option; and (iii) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the grant date.

Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

As of the date of this annual report, our controlling shareholder, Unicom Group, beneficially owned, through two wholly owned subsidiaries, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited, 9,725,000,020 shares of Unicom, or 77.47% of our total outstanding shares. Unicom Group is controlled by the Ministry of Finance and a group of approximately fifteen companies, most of which are state-owned enterprises in China. Shares owned by Unicom Group do not carry voting rights different from our other issued shares.

As of May 31, 2002, nearly all of our record shareholders were located outside of the United States. In addition, as of June 19, 2002, there were approximately 15.9 million ADSs outstanding, each representing 10 shares and together representing 1.3% of our total outstanding shares or 5.6% of our total outstanding shares not held by our controlling shareholder.

RELATED PARTY TRANSACTIONS

Principal transaction between us and our controlling shareholder, Unicom Group, include the following categories:

- # agreements relating to the restructuring in connection with our initial public offering;
- # provision of ongoing telecommunications and ancillary services by Unicom Group to us;
- # mutual provision of ongoing telecommunications and ancillary services between Unicom Group and us;
- # mutual provision of premises between Unicom Group and us; and
- # leasing of CDMA network capacity by us from Unicom Group and related interconnection and roaming arrangements.

Agreements Relating to the Restructuring in Connection with Our Initial Public Offering

The Reorganization Agreement

In connection with the restructuring, our wholly owned subsidiary, China Unicom Corporation Limited, entered into a reorganization agreement with Unicom Group dated April 21, 2000. This agreement includes the following terms:

(a) Unicom Group's agreement to transfer to China Unicom Corporation Limited the assets and liabilities attributable to the businesses as described under Item 4, “Information on the Company — History and Development of the Company — The Restructuring of Unicom Group and Our Initial Public Offering”,

(b) mutual warranties and indemnities given by Unicom Group and China Unicom Corporation Limited in relation to the assets and liabilities transferred to China Unicom Corporation Limited and in relation to the restructuring,

(c) undertakings by Unicom Group in favor of China Unicom Corporation Limited, including undertakings:

  - # to hold and maintain all licenses received from the Ministry of Information Industry in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;

  - # subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;

  - # to arrange for us to participate in its international roaming arrangements;

  - # not to engage in any business which competes with our businesses except for the business of Unicom Paging and cellular telephony services based on CDMA technology;

  - # in relation to our paging business:

— in the management of Unicom Paging and Guoxin, to treat Guoxin no less favorably than Unicom Paging;

— not to expand Unicom Paging's existing coverage to new geographical areas;

— to give Guoxin the first right to develop any new paging-related technologies and services;

— not to provide financial resources or assistance to Unicom Paging which are not equally provided to Guoxin; and

— to ensure that Unicom Paging products and services are differentiated from Guoxin products in the marketplace;

to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service;

in order to minimize the risk of competition with our Internet business, to take steps to dispose of its interest in Beijing Shi Hua within twenty-four months following receipt of a notification from us that we intend to provide Internet services which we consider similar to those provided by Beijing Shi Hua;

to ensure that we can continue to use premises for which title documentation cannot be obtained at this time for a period of three years following the restructuring;

not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or China Unicom Corporation Limited, which would result in us or China Unicom Corporation Limited no longer constituting majority owned subsidiaries of Unicom Group; and

not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future except through us,

(d) an option granted by Unicom Group to us to acquire Unicom Group's interest in any telecommunications interest such as Unicom Paging, Unicom Xingye and Unicom Group's CDMA telephony license and business, and

(e) a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

Equity Transfer Agreement

In connection with the restructuring, we, Unicom Group, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited entered into an equity transfer agreement, dated April 21, 2000. This agreement includes the following terms:

(a) Unicom Group's agreement to transfer all of its equity interest in China Unicom Corporation Limited to us;

(b) our agreement to issue shares to China Unicom (BVI) Limited, China Unicom (BVI) Limited's agreement to issue shares to China Unicom (Hong Kong) Group Limited and China Unicom (Hong Kong) Group Limited's agreement to issue shares to Unicom Group;

(c) Unicom Group's and our agreement that:

we shall be entitled to apply in Hong Kong, Macau, Taiwan and in all places outside of China for all trademarks incorporating the word Unicom in English and Chinese and the Unicom logo; and

once these trademarks have been registered, we will sublicense these trademarks to Unicom Group, China Unicom Corporation Limited, Guoxin and Guoxin's subsidiaries on a royalty-free basis; and

(d) warranties and indemnities given by Unicom Group to us in relation to China Unicom Corporation Limited.

Trademark Agreement

Unicom Group is the registered owner of the Unicom trademark in English and the trademark bearing the Unicom logo, which are registered at the People’s Republic of China State Trademark Bureau. Under a PRC trademark license agreement entered into on May 25, 2000 between Unicom Group and China Unicom Corporation Limited, China Unicom Corporation Limited and our affiliates were granted the right to use these trademarks on a royalty-free basis for an initial period of five years, renewable at the option of China Unicom Corporation Limited. Under the terms of this agreement, we and our affiliates shall be the exclusive licensees of these trademarks provided that Unicom Group may also license these trademarks to any of its existing or future subsidiaries. Unicom Group has also agreed to license to China Unicom Corporation Limited any trademark which it registers in China in the future which incorporates the word Unicom in Chinese.

China Unicom Corporation Limited entered into a multiple service agreement with Unicom Paging on August 1, 2001. Under the terms of the agreement, both agree to licence its own trademarks and logs to each other on equitable terms and free of charge.

Provision of Ongoing Telecommunications and Ancillary Services by Unicom Group to Us

Leasing of Satellite Transmission Capacity

We lease satellite transmission capacity from China United Telecommunications Satellite Communication Co. Ltd. or Unisat, which is a 60.25% owned subsidiary of Unicom Group. We use this capacity to supplement our long distance network.

Unisat and China Unicom Corporation Limited entered into a satellite transmission channel leasing agreement, dated May 25, 2000. Under this agreement, China Unicom Corporation Limited is entitled to lease for itself and on behalf of Guoxin satellite transmission capacity from Unisat.

Payments for leasing of satellite transmission capacity will be calculated on the basis of tariffs set by the Ministry of Information Industry. We will pay the minimum applicable tariff for the relevant volume and duration less a discount of up to 30%. The discount will not be less than that offered to any third party leasing similar transmission capacity. The total leasing charges for satellite transmission capacity for 2001 was approximately RMB 62 million.

Supply of International Gateway Services

Unicom Group provides us with access to international connections for our international long distance service through its international gateways. We and Unicom Group entered into a services agreement, dated May 25, 2000. Under the services agreement, Unicom Group agrees to supply international gateway services to us for an initial term of three years, renewable at our option. Unicom Group has undertaken not to supply international gateway services to third parties. The charge for these services are based on Unicom Group's cost of operation and maintenance of the international gateway facilities, including depreciation, plus a margin of ten percent over cost. We retain all revenues generated by our international long distance service. Total charges for the supply of international gateway services was approximately RMB 13 million.

Supply of SIM Cards, IP Telephony Cards and Rechargeable Calling Cards

Through its subsidiary, Unicom Xingye, Unicom Group agreed to supply SIM cards, IP telephony cards and rechargeable calling cards to us for a period of three years after the restructuring, renewable at our option. Charges for the supply of these cards are based on the actual cost incurred by Unicom Xingye in supplying the cards plus a margin over cost to be agreed upon from time to time, but in any case not to exceed 20%, subject to specified volume discounts. Under the services agreement, prices and volumes will be reviewed by the parties on an annual basis. Total charges for the supply of SIM cards, IP telephony cards and rechargeable calling cards for 2001 was approximately RMB 1,256 million.

Equipment Procurement Services

Prior to the restructuring, Unicom Import and Export Co. Ltd., a 96.8% owned subsidiary of Unicom Group, handled most procurement of foreign and domestic telecommunications equipment and other materials required for construction of Unicom Group's networks. China Unicom Corporation Limited may continue to use Unicom Group's procuring service at the rate of:

0.7% of the contract value in the case of imported equipment, or

0.5% of the contract value in the case of domestic equipment.

Our total payment to Unicom Group for equipment procurement services for 2001 was approximately RMB 125 million.

Mutual Provision of Ongoing Telecommunications and Ancillary Services and Facilities

Interconnection Arrangements and Roaming Arrangements

Our cellular and long distance networks interconnect with Unicom Group’s cellular networks. The services agreement between us and Unicom Group provides for their interconnection arrangements. These arrangements will be for an initial period of three years, renewable at our option. Interconnection settlement between Unicom Group's networks and our networks is based on relevant standards established from time to time by the Ministry of Information Industry. However, in the case of calls between cellular subscribers of different networks in different provinces, settlement is based on either the relevant standards established by the Ministry of Information Industry or an internal settlement arrangement applied by

Unicom Group prior to the restructuring, whichever is more favorable to us. The internal settlement arrangement, which is based on the parties' respective internal costs of providing this service, is currently more favorable to us than the settlement arrangement prescribed by the Ministry of Information Industry. We have also entered into similar interconnection arrangements with Unicom Group for our CDMA services.

We and Unicom Group provide roaming services to each other. In addition, we make our long distance network available to Unicom Group in its implementation of its roaming arrangements with other operators. These roaming arrangements are governed by the services agreement between us and Unicom Group for an initial period of three years, renewable at our option. Charges for these roaming services between us and Unicom Group are based on our respective internal costs of providing these services, and will be on no less favorable terms than those available to any third party. We receive 50% of roaming revenue of Unicom Group from third party operators for calls using our long distance network. We have also entered into similar roaming arrangements with Unicom Group for our CDMA services in relation to the CDMA networks outside of our cellular service areas.

Interconnection and roaming revenue and interconnection and roaming expense derived from these arrangements with Unicom Group for 2001 was approximately RMB875 million and approximately RMB299 million, respectively.

Leasing of Transmission Line Capacity

We and Unicom Group lease transmission capacity from each other. Under our services agreement, this arrangement will be for an initial period of three years, renewable at our option. Lease charges are based on tariffs stipulated by the Ministry of Information Industry from time to time less a discount of up to 10%. When new tariffs are adopted, the discount rate will be reviewed. Net leasing fee paid by Unicom Group to us was RMB 199 million for 2001.

Sales Agency and Collection Services

We and Unicom Group have agreed to share collection and sales agency services and facilities. These arrangements are set out in a sales agency and collection services agreement among Unicom Group, China Unicom Corporation Limited and Guoxin for an initial period of 3 years, renewable at our option. Sales agency and collection revenue from Unicom Group for 2001 was approximately RMB12 million.

Mutual Provision of Premises

Beijing Head Office Lease

We lease our Beijing head office premises from Unicom Xingye for an initial term of one year, renewable at our option. The lease was renewed on May 25, 2001 under the same terms.

Mutual Provision of Premises

Unicom Group and we provide to each other premises from time to time. Other than premises leased from third parties, the rental rates in each case are based on the lower of depreciation costs and market prices for similar premises in that locality, but we may charge Unicom Group market rates for premises leased to Unicom Group. Total charges for premises leased by Unicom Group to us for 2001 were RMB21.3 million.

Leasing of CDMA Network Capacity

Our wholly-owned subsidiary, China Unicom Corporation Limited, entered into a lease agreement with Unicom Group and its subsidiary Unicom New Horizon on November 22, 2001, pursuant to which Unicom New Horizon agreed to lease CDMA network capacity in our cellular service areas to China Unicom Corporation Limited. This leasing arrangement has been approved by our minority shareholders at an extraordinary shareholders' meeting. We have the exclusive right to operate the CDMA network in our service areas. The initial term of the lease is one year, renewable each year at our option. The lease commenced in January 2002.

Under the leasing arrangement, Unicom New Horizon agreed to plan, finance and construct the CDMA network, including the procurement of all equipment, and ensure that the CDMA network is constructed in accordance with the detailed specifications and timetable agreed between Unicom New Horizon and us. All payments, costs, expenses and amounts paid or incurred by Unicom New Horizon that are directly attributable to the construction of the CDMA network form the total network construction cost, which is used in calculating the lease fee payable by us, including:

- construction, installation and equipment procurement costs and expenses,
- survey and design costs,
- investment in technology, software and other intangible assets,
- insurance premiums and capitalised interest on loans,
- any taxes levied or paid in respect of the procurement of equipment and the construction of the CDMA network, including import taxes and custom duties, and
- all costs incurred in relation to any upgrade of technology.

The network construction cost should be verified and appropriate documentation mostly be provided to us or our auditors for verification. The lease fee is calculated so as to enable Unicom New Horizon to recover its total network construction cost within 7 years, together with an internal rate of return of 8%.

We are responsible for the operation, management and maintenance of the CDMA network in accordance with the relevant requirements of the lease agreement and have the exclusive right to provide CDMA services in our cellular service areas. All operating revenue, including airtime charges, monthly subscription fees, interconnection charges, income from sales of UIM cards and handsets and other income generated from or in connection with the operation of the CDMA network belong to us.

In addition to the capacity which we have agreed to lease in the first term by giving Unicom New Horizon quarterly notices, subject to giving not less than 180 days' prior notice to Unicom New Horizon, we may request to lease additional capacity. Unicom New Horizon is required to ensure that all capacity which we have so requested is supplied by the due date of delivery of the capacity, provided that, unless otherwise agreed, Unicom New Horizon will not be obliged to expand the CDMA network beyond the first phase. China Unicom may not reduce the amount of capacity leased during the initial one-year lease term. However, subject to providing not less than 180 days' prior written notice to or with the prior written consent of Unicom New Horizon, China Unicom may reduce the amount of capacity leased for any additional lease term, provided that China Unicom must lease all capacity which it has requested or otherwise committed to lease for at least one year following the data of delivery or renewal of the lease of such capacity.

Subject to certain exceptions, including delay caused by a force majeure event, a material breach of the lease agreement by us or compliance with applicable laws and regulations, if any capacity is not ready for operational service by the relevant delivery date, then Unicom New Horizon shall be liable to provide delay discount to us, equal to the daily lease fee in respect of the relevant capacity multiplied by the number of days of delay, which shall be credited against future lease fee payments.

We have the option to purchase the CDMA network, which may be exercised at any time during the initial lease term or any additional lease term of the lease and within one year thereafter. The acquisition price will be negotiated between Unicom New Horizon and us, based on the appraised value of the CDMA network determined by an independent assets appraiser in accordance with applicable PRC laws and regulations and taking account of prevailing market conditions and other factors, provided that it will not exceed such price as would, taking into account all lease fee payments made by us to Unicom New Horizon and all delay discounts of lease fee, enable Unicom New Horizon to recover its total network construction cost, together with an internal rate of return on its investment of 8%. The exercise of the purchase option will be subject to the relevant provisions of the listing rules of Hong Kong Stock Exchanges governing connected transactions. Title to the CDMA network assets will remain vested in Unicom New Horizon until the CDMA network assets are transferred to us following exercise of the purchase option.

In consideration of our entering into the leasing arrangement, Unicom Group has unconditionally and irrevocably guaranteed the due and punctual performance by Unicom New Horizon of its obligations under the lease agreement. Unicom Group has also agreed to indemnify us for any loss suffered as a result of any defect in any of the equipment or any loss caused by any negligence, default, act or omission of Unicom New Horizon or Unicom Group under the lease agreement or in connection with the CDMA network. The aggregate liability of Unicom Group for any claim shall not exceed the total amount of lease fee payments made to Unicom New Horizon and the total purchase price paid for the CDMA network. The guarantee and indemnity provided by Unicom Group under the lease agreement will continue in force until the expiration of the lease agreement.

We may terminate the lease by not less than 180 days' prior written notice, with effect from the end of any additional term. In addition, Unicom Group or we may terminate the lease if the other commits any continuing or material breach of the lease agreement. Unicom Group or Unicom New Horizon is not otherwise permitted to terminate the lease.

CDMA Interconnection and Roaming Arrangements

In connection with the CDMA network capacity lease agreement, our operating subsidiary, China Unicom Corporation Limtied, has entered into a services agreement with Unicom Group with respect to interconnection and roaming arrangements. These arrangements will be for an initial period of one year, and will be automatically renewed or terminated thereafter upon the renewal or termination of the lease agreement.

Interconnection arrangements. Our GSM and CDMA cellular and fixed line networks and Unicom Group's GSM and CDMA cellular and fixed line networks interconnect with each other.

Interconnection settlement between Unicom Group's networks and our networks is based on relevant standards established from time to time by the Ministry of Information Industry, or MII. However, in the case of calls between cellular subscribers in different provinces, settlement is based on either the relevant standards established by the MII from time to time or an agreed settlement arrangement between us and Unicom Group. We are able to choose the more favourable arrangement. The agreed settlement arrangement, which is based on the parties' respective internal costs of providing this service, is currently more favourable to us than the settlement arrangement prescribed by the MII.

Our interconnection revenue and interconnection expenses derived from interconnection with Unicom Group for 2002 are estimated to be approximately RMB83 million and approximately RMB32.5 million, respectively.

Roaming arrangements. We and Unicom Group provide roaming services to each other's CDMA cellular subscribers within its respective service areas. In addition, we make our long distance network available to Unicom Group to enable Unicom Group to give effect to its roaming arrangements with third party operators.

Charges for these services between us and Unicom Group are based on our respective internal costs of providing these services, and are on no less favorable terms than those available to any independent third party. We are paid 50% of the roaming revenue received by Unicom Group from third party operators for making our long distance network available to Unicom Group to give effect to its roaming arrangements with third party operators.

Our roaming revenue and roaming expenses derived from roaming with Unicom Group for 2002 are estimated to be approximately RMB56 million and approximately RMB22 million, respectively.

Other Related Party Transactions

We and Unicom Group have agreed to purchase a total of 500,000 CDMA handsets from several supplier in April 2002. These purchases are made through Guomai, a company listed on the Shanghai Stock Exchange and our 58.88% indirectly owned subsidiary. Under the arrangements between Guomai and us and between Guomai and Unicom Group, Guomai will purchase CDMA handsets from various suppliers in types and quantities as we and Unicom Group specify in supply notices from time to time over a seven-month period beginning in May 2002. It will then re-sell such handsets to us and Unicom Group and distribute them to recipients designated by Unicom Group and us. The purchase price shall be payable by us or Unicom Group to Guomai within seven business days of the delivery of the handsets to the designated recipients. The purchase price is negotiated on an arm's length basis and depends on Guomai's purchase cost and reasonable expenses in distributing the handsets to designated recipients, but in any event the purchase price will not be lower than the price at which such CDMA handsets are sold by Guomai to independent third parties.

Guarantee of Our Bank Loans by Unicom Group

As of December 31, 2001, short-term bank loans of approximately RMB 200 million and long-term bank loans of approximately RMB 3.4 billion of our wholly-owned operating subsidiary were guaranteed by Unicom Group. Such guarantees were provided for our benefit without any cost to us.

Item 8. Financial Information

Consolidated Financial Statements

See Item 18, "Financial Statements".

Legal Proceedings

We are not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

POLICY ON DIVIDEND DISTRIBUTION

We were established on February 8, 2000 and have not declared or paid any dividends since our establishment. We expect that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of dividends will depend upon, among other things, future earnings, capital requirements, our financial condition and general business conditions. We may only pay dividends out of our distributable profits.

Item 9. The Offer and Listing

MARKET PRICE INFORMATION

Our American depositary shares, each representing 10 ordinary shares, are listed and traded on the New York Stock Exchange. Our shares are listed and traded on the Hong Kong Stock Exchange. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and shares, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our shares on the Hong Kong Stock Exchange and of our ADSs on the New York Stock Exchange since listing are as follows:

	Price per Share (HK$)		**Price per ADS (US$)**	
	High	**Low**	**High**	**Low**
Annual:				
2000[1]	21.45	10.95	28.25	14.06
2001	14.00	7.10	18.00	9.00
Quarterly:				
Second Quarter, 2000[1]	17.00	15.75	22.36	20.13
Third Quarter, 2000	21.45	15.80	28.25	21.06
Fourth Quarter, 2000	18.45	10.95	23.75	14.06
First Quarter, 2001	13.65	8.25	18.00	10.70
Second Quarter, 2001	13.75	7.85	17.77	10.15
Third Quarter, 2001	14.00	7.55	18.00	9.85
Fourth Quarter, 2001	9.40	7.10	12.16	9.00
First Quarter, 2002	8.90	7.20	11.54	9.10
Monthly:				
January 2002	8.90	7.50	11.54	9.45
February 2002	7.85	7.40	10.30	9.31
March 2002	8.20	7.20	10.55	9.10
April 2002	7.75	7.20	9.86	9.09
May 2002	7.85	7.25	10.34	9.21
June 2002 (through June 19)	7.25	6.75	9.21	8.49

(1) Commencing June 22, 2000 in respect of the shares traded on the Hong Kong Stock Exchange and June 21, 2000 in respect of the ADSs traded on the New York Stock Exchange.

Item 10. Additional Information

MEMORANDUM AND ARTICLES OF ASSOCIATION

General

Under our Memorandum of Association, we have the capacity, rights, powers, liabilities and privileges of a natural person. The following is a summary of selected provisions of our Articles of Association:

Directors

Material Interests and Voting

A director shall not vote (or be counted in the quorum) on any resolution of our board of directors in respect of any contract or arrangement or proposal in which he is, to his knowledge, materially interested, and if he shall do so, his vote shall not be counted, but this prohibition does not apply to any contract, arrangement or other proposal for or concerning:

- the giving of any security or indemnity either (a) to the director in respect of money lent or obligations incurred by him at the request of or for the benefit of Unicom or any of its subsidiaries or (b) to a third party in respect of a debt or obligation of Unicom or any of its subsidiaries for which the director has himself assumed responsibility or guaranteed or secured in whole or in part;

- an offer of shares or debentures or other securities of or by Unicom (or any other company which Unicom may promote or be interested in) where the director is a participant in the underwriting or sub-underwriting of the offer;

- any other company in which the director is interested as an officer or shareholder or in which the director is beneficially interested in shares of that company, provided that he, together with any of his associates (as defined in the Hong Kong Stock Exchange Listing Rules) is not beneficially interested in 5% or more of (a) the issued shares of any class of such company (or of any third company through which his interest is derived) or (b) the voting rights attached to such issued shares or securities;

- the benefit of employees of Unicom or any of its subsidiaries including (a) the adoption, modification or operation of any employees share scheme under which the director may benefit or (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of Unicom or any of its subsidiaries and does not provide in respect of the director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

- any contract or arrangement in which the director is interested in the same manner as other holders of shares or debentures or other securities of Unicom by virtue only of his interest in shares or debentures or other securities of Unicom.

Remuneration and Pensions

The directors of Unicom are entitled to receive by way of remuneration for their services such sum as is from time to time determined by Unicom in general meeting. The directors are also entitled to be repaid all traveling, hotel and other expenses reasonably incurred by them in or about the performance of their duties as directors. The board of directors may grant special remuneration to any director who performs services which in the opinion of the board are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to, any persons (a) who are or were at any time in the employment or service of Unicom, or of any company which is a subsidiary of Unicom, or is allied or associated with Unicom or with any such subsidiary company, or (b) who are or were at any time directors or officers of Unicom or of any such other company above, and holding or who have held any salaried employment or office in Unicom or such other company, and the wives, widows, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers

The directors may exercise all the powers of Unicom to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Unicom and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Unicom or of any third party.

Qualification of Directors

A director of Unicom is not required to hold any qualification shares. No person is required to vacate office or be ineligible for re-election or reappointment as a director, and no person is ineligible for appointment as a director, by reason only of his having attained any particular age.

Rotation of Directors

At every annual general meeting, one-third of the directors for the time being, or, if the number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation except for any director holding office as Chairman or Chief Executive Officer. The directors to retire in every year shall be those who have been longest in office since their last election. The retiring directors shall be eligible for re-election.

Rights Attached to Ordinary Shares

Voting Rights

Under the Companies Ordinance, any action to be taken by the shareholders in a general meeting requires the affirmative vote of either an ordinary or a special resolution passed at the meeting. An ordinary resolution is one passed by the majority of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. A special resolution is one passed by not less than three-quarters of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. Most shareholders decisions are passed by ordinary resolutions. However, the Companies Ordinance and our articles of association stipulate that certain matters may only be passed by special resolutions.

Subject to any special rights, privileges or restrictions as to voting that may from time to time be attached to any class or classes of shares, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded by:

- # the chairman of the meeting,
- # at least three shareholders present in person or by proxy and entitled to vote at the meeting,
- # any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders having the right to attend and vote at the meeting, or
- # any shareholder or shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a show of hands, every individual shareholder who is present in person and every corporate shareholder who is present by a representative duly authorized under section 115 of the Companies Ordinance has one vote.

On a poll, every shareholder present in person or, if the shareholder is a corporation, by duly authorized representative, or by proxy has one vote for every share of which he or she is the shareholder which is fully paid up or credited as fully paid up. However, no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Any action to be taken by the shareholders requires the affirmative vote of a majority of the shares at a meeting of shareholders. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Issue of Shares

Under the Companies Ordinance, our board of directors may, without prior approval of our shareholders, offer to issue new shares to existing shareholders proportionately according to their shareholdings. Our board of directors may not offer to issue new shares in any other manner without the prior approval of our shareholders in a general meeting. Any such approval given in a general meeting will continue in force until the conclusion of the following annual general meeting or the expiration of the period within which the next annual general meeting is required by law to be held or when revoked or varied by an ordinary resolution of our shareholders in a general meeting, whichever comes first. If such approval is given, the unissued shares shall be at the disposal of our board of directors, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as our board of directors may determine.

In accordance with the Listing Rules of the Hong Kong Stock Exchange, any such approval given by the shareholders must be limited to shares with an aggregate nominal value not exceeding 20 per cent of the aggregate nominal value of our share capital in issue plus the aggregate nominal amount of share capital repurchased by us since the granting of such approval.

Dividends

Subject to the Companies Ordinance and as set out in our articles of association, our shareholders in a general meeting may from time to time by ordinary resolution declare dividends to be paid to our shareholders according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by our board of directors.

In addition to any dividends declared in a general meeting upon the recommendation of the board of directors, our board of directors may from time to time declare and pay to our shareholders such interim dividends as appear to our board of directors to be justified by our financial position. Our board of directors may also pay any fixed dividend which is payable on any of our shares on any other dates, whenever our financial position, in the opinion of our board of directors, justifies such payments.

All dividends or bonuses unclaimed for one year after having become payable may be invested or otherwise made use of by the board for the benefit of Unicom until claimed. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and will revert to Unicom.

Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors shall be divided among the shareholders in proportion to the capital paid up on the shares held by them, subject to the rights of the holders of any shares which may be issued on special terms or conditions.

If we are wound up, the liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

Miscellaneous

Shareholders are not entitled to any redemption rights, conversion rights or preemptive rights on the transfer of ordinary shares.

The transfer agent and registrar for the shares is Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

Modification of Rights

Subject to the Companies Ordinance, any of the rights from time to time attaching to any class of shares may, subject to the provisions of the Companies Ordinance, be varied or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class. The provisions of our Articles of Association relating to general meetings apply to such separate general meetings, except that the necessary quorum is not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class, and that any holder of the shares of the class present in person or by proxy may demand a poll.

Annual General and Extraordinary General Meetings

We must hold in each year a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting is held at such time (within a period of not more than fifteen months, or such longer period as the Registrar of Companies of Hong Kong may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the Directors. All other general meetings are called extraordinary general meetings. The Directors may call an extraordinary general meeting at any time or upon request in accordance with the Hong Kong Companies Ordinance.

Subject to the Companies Ordinance, an annual general meeting and a meeting called for the passing of a special resolution can be called by not less than twenty-one days' notice in writing, and any other general meeting can be called by not less than fourteen days' notice in writing. The notice must specify the place, date and time of meeting, and, in the case of special business, the general nature of that business.

Limitations on Rights to Own Securities

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, imposed by Hong Kong law or by our Memorandum of Association or our Articles of Association.

Changes in Capital

We may exercise any powers conferred or permitted by the Companies Ordinance to purchase or otherwise acquire our own shares and warrants at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase made by any person of any shares or warrants in Unicom. If we purchase or otherwise acquire our own shares or warrants, neither we nor our board of directors will be required to select the shares or warrants to be purchased or otherwise acquired ratably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares; provided, however, purchases not made through the market or by tender shall be limited to a maximum price and if purchases are by tender, tender shall be available to all shareholders alike. Any such purchase or other acquisition or financial assistance must be made or given in accordance with any relevant rules or regulations issued by the Hong Kong Stock Exchange or the Securities and Futures Commission of Hong Kong.

We in general meeting may, from time to time, by ordinary resolution increase our authorized share capital by the creation of new shares, and prescribe the amount of new capital and number of new shares. We may from time to time by ordinary resolution:

consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;

divide our shares into several classes and attach to them any preferential, deferred, qualified or special rights, privileges or conditions;

cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so canceled;

sub-divide our shares or any to them into shares of smaller amount than is fixed by our Memorandum of Association, subject nevertheless to the provisions of the Companies Ordinance; and

- make provision for the issue and allotment of shares which do not carry any voting rights.

MATERIAL CONTRACTS

In addition to contracts we have entered into with our controlling shareholder, Unicom Group, or its subsidiaries, as described in "Related Party Transactions" under Item 7, Unicom Group, we or our subsidiaries have entered into the following contracts that are not in the ordinary course of business within the two years preceding the date of this annual report that are or may be material:

- Deposit agreement, dated June 22, 2000, among Unicom, The Bank of New York, as Depositary, and owners and beneficial owners of American depositary receipts, or ADR, issued thereunder, in relation to the establishment of our ADR depositary facility.

- Our share option schemes, as described in "Share Ownership — Stock Incentive Plan under Item 6".

- Framework interconnection and settlement agreement between Unicom Group and China Telecom, dated September 30, 2001.

- Interconnection and settlement agreements, dated September 30, 2001, between Unicom Group and China Telecom, relating to the interconnection between Unicom Group's and our cellular networks and China Telecom's telecommunication networks.

- Interconnection and settlement agreement, dated November 14, 2001, between Unicom Group and China Mobile, relating to the interconnection between Unicom Group's and our CDMA and GSM cellular networks and China Mobile's GSM networks.

- Network capacity lease agreement for CDMA network capacity, see "Related Party Transactions — Leasing of CDMA Network Capacity" under Item 7.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

The ability of our wholly owned subsidiary, China Unicom Corporation Limited, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future exchange control regulations in China. The Renminbi is currently convertible under the current account, which includes trade and service related foreign exchange transactions. Renminbi currently cannot be converted under the capital account, which includes foreign direct investment. China Unicom Corporation Limited, our wholly owned subsidiary that holds substantially all of our assets, is a foreign investment enterprise. This foreign investment enterprise status will allow it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration for Foreign Exchange. These current account transactions include payment of dividends. However, the relevant Chinese government authorities may in the future limit or eliminate the authorizations for a foreign investment enterprise to retain its foreign exchange to satisfy its foreign exchange obligations or to pay dividends in the future. Furthermore, the foreign exchange transactions of this subsidiary under the capital account still require approvals from the State Administration for Foreign Exchange. This requirement affects our subsidiary's ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws which restrict the import or export of capital and which would affect the availability of cash and cash equivalents for our use, (ii) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of interest, dividends or other payments on our outstanding debt and equity securities to U.S. residents and (iii) there are no limitations on the rights of non-resident or foreign owners to hold our debt or equity securities.

TAXATION

The taxation of income and capital gains of holders of shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-Hong Kong and non-U.S. federal laws. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

Hong Kong

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as the shares and ADSs. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares or ADSs realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK$1.005 per HK$1,000 or part thereof on the higher of the consideration for or the value of the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. For example, a total of HK$2.00 per HK$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving shares. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

The withdrawal of shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit of shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to The Bank of New York, as depositary of the ADSs, or for the account of The Bank of New York does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The shares are Hong Kong property under Hong Kong law, and accordingly such shares may be subject to estate duty on the death of the beneficial owner of such shares, regardless of the place of the owner's residence, citizenship or domicile. We cannot assure you that the Hong Kong Inland Revenue Department will not treat the ADSs as Hong Kong property that may be subject to estate duty on the death of the beneficial owner of the ADS even if the ADRs evidencing such ADSs are located outside Hong Kong at the date of such death. Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty has, in the past, been adjusted on a fairly regular basis. No estate duty is payable when the aggregate value of the dutiable estate does not exceed HK$7.5 million, and the maximum rate of duty of 15% applies when the aggregate value of the dutiable estate exceeds HK$10.5 million. The rates and thresholds stated here apply to estate of persons who died after April 1998.

United States

United States Federal Income Taxation.

This section describes the material United States federal income tax consequences of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- # a dealer in securities,
- # a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- # a tax-exempt organization,
- # an insurance company,
- # a person liable for alternative minimum tax,
- # a person that actually or constructively owns 10% or more of our voting stock,
- # a person that holds shares or ADSs that are a hedge or that are hedged against currency risks or as part of a straddle or a conversion transaction, or
- # a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- # a citizen or resident of the United States,
- # a corporation organized under the laws of the United States or any States,
- # an estate whose income is subject to United States federal income tax regardless of its source, or
- # a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). The dividend is ordinary income that you must include in income when you, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong Dollar payments made, determined at the spot Hong Kong/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Dividends will be income from sources outside the United States, but generally will be passive income or financial services income, which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations. Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

Passive Foreign Investment Company Rules. We believe that we should not be treated as a passive foreign investment company for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a passive foreign investment company with respect to you if for any taxable year in which you held our ADSs or shares:

at least 75% of our gross income for the taxable year is passive income, or

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, and rents, but not including certain rents and royalties derived in the active conduct of a trade or business, annuities, gains from assets that produce passive income. If a foreign corporation owns directly or indirectly at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the passive foreign investment company tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a passive foreign investment company, and you are a U.S. holder that does not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

any gain you realize on the sale or other disposition of your shares or ADSs and

any excess distribution that we make to you. Generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs.

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs,

the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,

the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a passive foreign investment company.

If you own shares or ADSs in a passive foreign investment company that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the passive foreign investment company rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your shares or ADSs will be taxed as ordinary income.

If you own shares or ADSs during any year that we are a passive foreign investment company, you must file Internal Revenue Service Form 8621.

DOCUMENTS ON DISPLAY

It is possible to read and copy documents referred to in this annual report that have been filed with the U.S. Securities and Exchange Commission, or the SEC, at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

Item 11. Quantitative and Qualitative Disclosures About Market Risks

Our exposure to financial market risks relates primarily to changes in interest rates in China and currency exchange rates.

INTEREST RATE RISK

We are subject to market risks due to fluctuations in interest rates, principally as a result of our long-term loans, most of which bear interests at variable rates based on benchmark rates set by the People's Bank of China. The original maturities of our long-term loans range from one to seven years.

Upward fluctuations in interest rate increase our cost of new debt and our interest cost of outstanding borrowings in the event the People's Bank of China raises the relevant interest rates. We do not conduct hedging and interest rate swaps in connection with our borrowings. As a result, a significant increase in interest rates could have a material adverse effect on our financial position.

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of variable rate short-term and long-terms debt obligation, as of December 31, 2001.

	Expected Maturity Date					
	2002	**2003**	**2004**	**2005**	**2006**	**Thereafter**
	(RMB equivalent in million, except interest rate)					
Variable rate banks and other loans	7,933	9,340	4,600	16,337	4,277	1,783
Average interest rate(1)	6.10%	6.16%	6.04%	6.03%	6.05%	6.21%

(1) The interest rates for variable rate banks and other loans are calculated based on the weighted average interest rates at the end of 2001.

For the year ended December 31, 2001, if the average interest rates for our variable rate banks and other loans had increased by 10%, we estimate that we would have incurred additional interest expenses of RMB 191 million in 2001.

EXCHANGE RATE RISK

Our indebtedness and capital expenditures are predominantly in Renminbi. Currency exchange rate risk exists with respect to our payables to equipment suppliers and contractors in foreign currencies. As of December 31, 2001, approximately RMB 67 million of payables to contractors and equipment suppliers and approximately RMB 662 million of capital commitments outstanding was authorized and contracted for in currencies other than Renminbi. Fluctuations in exchange rates may lead to significant fluctuations in the exposure of our foreign currency denominated liabilities. We have not engaged in any foreign currency hedging activities.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. [Reserved**]**

Item 16. [Reserved**]**

PART III

Item 17. Financial Statements

We have elected to provide financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

See Index to Consolidated Financial Statements for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Exhibit	Sequential Page Number
1.1	Memorandum of Association of Unicom, dated January 27, 2000[(1)].	
1.2	Form of Amended Articles of Association of Unicom (as amended)[(1)].	
2.1	Form of Deposit Agreement, among Unicom, the Bank of New York, as Depositary, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt[(2)].	
2.2	Form of specimen certificate for the shares[(1)].	

Exhibit Number	Description of Exhibit	Sequential Page Number
4.1	Interconnection and Settlement Agreement, dated January 12, 2000, relating to the interconnection between Unicom Group's long distance telephony network and the fixed line local telephony network of China Telecom (with English translation)[1].	
4.2	Framework Interconnection and Settlement Agreement, dated September 30, 2001, between Unicom Group and China Telecom (with English summary).	
4.3	Interconnection and Settlement Agreement, dated September 30, 2001, between Unicom Group and China Telecom, relating to the interconnection between Unicom Group's and our cellular networks and China Telecom's telecommunication networks (with English summary).	
4.4	Interconnection and Settlement Agreement, dated November 14, 2001, between Unicom Group and China Mobile, relating to the interconnection between Unicom Group's and our CDMA and GSM cellular networks and China Mobile's GSM networks (with English summary).	
4.5	CDMA Network Capacity Lease Agreement among China Unicom Corporation Limited, Unicom Group and Unicom New Horizon, dated November 22, 2001.	
4.6	Form of Reorganization Agreement between Unicom Group and China Unicom Corporation Limited (together with English translation)[1].	
4.7	Form of Equity Transfer Agreement between China Unicom Corporation Limited, Unicom Group, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited [1].	
4.8	Form of Trademark License Agreement between Unicom Group and China Unicom Corporation Limited (together with English translation)[1].	
4.9	Form of Services Agreement between Unicom Group and China Unicom Corporation Limited (together with English translation)[1].	
4.10	Form of Lease Agreement between China Unicom Corporation Limited and Unicom Xingye Science and Technology Trade Co. Ltd. (together with English translation)[1].	
4.11	Form of Transmission Line Lease and Services Agreement between Unicom Group, China Unicom Corporation Limited and Guoxin Paging. (together with English translation)[1].	
4.12	Pre-Global Offering Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolution of the Company on May 13, 2002.	
4.13	Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolution of the Company on May 13, 2002.	

Exhibit Number	Description of Exhibit	Sequential Page Number
4.14	Form of Warrant Certificate issued in connection with the termination of certain CCF arrangements(1).	
4.15	Form of Service Agreement between each executive director of Unicom and Unicom (3).	
8.1	List of our significant subsidiaries(1).	
10.1	Letter to the SEC regarding the receipt of audit quality representations letter from Arthur Anderson & Co, our independent auditor.	

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(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11938) filed with the SEC in connection with our initial public offering in June 2000.

(2) Incorporated by reference to the Registration Statement on Form F-6 (Filed No. 333-11952) filed with the SEC with respect to American Depositary Shares representing our shares.

(3) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2000.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 25, 2002

CHINA UNICOM LIMITED

By: /s/ TAN XINGHUI

Tan Xinghui
Executive Director and Vice President

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ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA UNICOM LIMITED
(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") with limited liability)

We have audited the accompanying consolidated balance sheets of China Unicom Limited (the "Company") and its subsidiaries (the "Group") as of December 31, 2000 and 2001, and the related consolidated statements of income, recognized gains and losses, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the generally accepted auditing standards in the United States of America and auditing standards established by the Hong Kong Society of Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with generally accepted accounting principles in Hong Kong.

Certain accounting principles used by the Group in preparing the accompanying consolidated financial statements conform with generally accepted accounting principles in Hong Kong, but do not conform with generally accepted accounting principles in the United States of America. A description of the significant differences between those two standards and the effects of those differences on net income and shareholders' equity is set forth in Note 41 to the consolidated financial statements.

Arthur Andersen & Co
Certified Public Accountants

Hong Kong
March 27, 2002

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands, except per share data)

		Year ended December 31,			
	Note	**1999**	**2000**	**2001**	**2001**
		RMB	**RMB**	**RMB**	**US$**
Revenue:					
Cellular Business		5,314,249	12,187,804	20,505,058	2,477,474
Paging Business		9,046,911	8,483,490	4,341,824	524,590
Long Distance, Data and Internet Business		79,159	1,096,394	3,308,944	399,795
Total service revenue		14,440,319	21,767,688	28,155,826	3,401,859
Sales of telecommunications products		3,009,688	1,924,770	1,237,060	149,465
Total revenue	4	17,450,007	23,692,458	29,392,886	3,551,324
Operating expenses:					
Leased lines		(1,099,251)	(1,158,123)	(853,306)	(103,098)
Interconnection charges		(693,090)	(1,379,465)	(2,072,584)	(250,415)
Depreciation and amortization		(3,691,019)	(5,734,315)	(8,262,296)	(998,272)
Personnel		(1,713,172)	(1,769,840)	(2,487,218)	(300,512)
Selling and marketing		(1,557,259)	(2,492,433)	(3,612,890)	(436,519)
General, administrative and other expenses	7(iv)	(2,586,402)	(3,743,063)	(5,498,997)	(664,403)
Cost of telecommunications products sold		(3,293,984)	(2,192,938)	(1,342,244)	(162,173)
Total operating expenses	7	(14,634,177)	(18,470,177)	(24,129,535)	(2,915,392)
Operating income		2,815,830	5,222,281	5,263,351	635,932
Financial income	5	105,595	1,748,805	2,096,972	253,361
Financial expense	6	(808,806)	(1,353,746)	(1,917,566)	(231,685)
Loss arising from terminations of CCF Arrangements	11	(224,270)	(1,193,838)	-	-
Other (expenses) income, net	8	(129,343)	59,229	19,831	2,396
Income before taxation and minority interests	6	1,759,006	4,482,731	5,462,588	660,004
Taxation	10	(555,659)	(1,104,969)	(1,041,137)	(125,793)
Income before minority interests		1,203,347	3,377,762	4,421,451	534,211
Minority interests		(364,200)	(143,711)	35,310	4,266
Net income		839,147	3,234,051	4,456,761	538,477

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (CONT'D)
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands, except per share data)

		Year ended December 31,			
	Note	**1999**	**2000**	**2001**	**2001**
Basic net income per share	15	RMB0.09	RMB0.29	RMB0.36	US$0.04
Diluted net income per share	15	RMB0.09	RMB0.29	RMB0.36	US$0.04
Number of shares outstanding for basic net income (in thousand)	15	9,725,000	11,208,224	12,552,996	12,552,996
Number of shares outstanding for diluted net income (in thousand)	15	9,725,000	11,219,679	12,552,996	12,552,996
Basic net income per ADS	15	RMB0.86	RMB2.89	RMB3.55	US$0.43
Diluted net income per ADS	15	RMB0.86	RMB2.88	RMB3.55	US$0.43
Number of ADS outstanding for basic net income (in thousand)	15	972,500	1,120,822	1,255,300	1,255,300
Number of ADS outstanding for diluted net income (in thousand)	15	972,500	1,121,968	1,255,300	1,255,300

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RECOGNIZED GAINS AND LOSSES
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands)

		Year ended December 31,			
	Note	**1999**	**2000**	**2001**	**2001**
		RMB	**RMB**	**RMB**	**US$**
Surplus on revaluation of land use right and buildings	20	-	176,853	-	-
Net gains not recognized in the statements of income		-	176,853	-	-
Net income for the year		839,147	3,234,051	4,456,761	538,477
Total recognized gains		839,147	3,410,904	4,456,761	538,477

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2000 and 2001
(Expressed in thousands)

	Note	As of December 31, 2000 RMB	As of December 31, 2001 RMB	As of December 31, 2001 US$
ASSETS				
Current assets:				
Cash and cash equivalents		44,716,685	18,413,010	2,224,707
Short-term bank deposits		7,838,935	24,921,943	3,011,133
Trading securities	16	373,405	203,832	24,628
Accounts receivable, net	17	1,545,051	2,498,063	301,822
Inventories	18	679,689	751,991	90,857
Prepayments and other current assets	19	1,665,661	969,561	117,145
Amounts due from China Telecom	34(b)	376,246	199,460	24,099
Amounts due from related parties	33(c)	539,321	1,430,818	172,875
Current portion of deferred tax assets	10	19,642	569,192	68,771
Total current assets		57,754,635	49,957,870	6,036,037
Non-current assets:				
Property, plant and equipment, net	20	52,863,637	75,748,435	9,152,120
Goodwill	21	295,962	43,287	5,230
Deferred expenditures	22	805,869	1,015,438	122,688
Deferred tax assets	10	994,078	1,012,216	122,298
Investment securities	23	88,945	123,500	14,922
Investment in associated companies	25	25,700	4,146	501
Total assets		112,828,826	127,904,892	15,453,796
LIABILITIES AND EQUITY				
Current liabilities:				
Payables and accrued liabilities	26	12,521,167	15,329,436	1,852,141
Short-term bank loans	27	7,733,817	7,089,000	856,511
Advances from customers		2,615,676	2,765,541	334,139
Taxes payable		1,618,863	1,025,269	123,876
Current portion of long-term bank loans	28	766,875	843,603	101,926
Current portion of obligations under finance leases	29, 34(b)	-	8,151	985
Amounts due to Unicom Group	33(e)	821,797	947,934	114,532
Amounts due to China Telecom	34(b)	1,276,965	742,366	89,695
Amounts due to related parties	33(c)	53,153	135,724	16,399
Dividend payable		59,224	29,847	3,606
Total current liabilities		27,467,537	28,916,871	3,493,810
Long-term liabilities:				
Long-term bank loans	28	27,151,349	36,336,768	4,390,301
Obligations under finance leases	29, 34(b)	-	100,757	12,174
Other long-term liabilities		102,286	39,928	4,824
Total liabilities		54,721,172	65,394,324	7,901,109
Minority interests		883,252	829,405	100,211

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONT'D)
As of December 31, 2000 and 2001
(Expressed in thousands)

	Note	As of December 31,		
		2000	2001	2001
		RMB	RMB	US$
Capital and reserves:				
Share capital	30	1,331,371	1,331,371	160,860
Share premium		52,482,127	52,482,127	6,341,025
Reserves		601,658	826,286	99,834
Retained profits		2,809,246	7,041,379	850,757
Shareholders' equity		57,224,402	61,681,163	7,452,476
Total liabilities and equity		112,828,826	127,904,892	15,453,796

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands)

		Year ended December 31,			
	Note	**1999**	**2000**	**2001**	**2001**
		RMB	**RMB**	**RMB**	**US$**
Net cash inflows from operating activities	(a)	6,855,710	10,228,880	13,249,360	1,600,822
Returns on investments and servicing of finance					
Interest received		105,595	1,083,148	2,605,507	314,804
Interest paid		(852,114)	(1,331,326)	(2,576,822)	(311,338)
Dividends received		6,202	258	22,864	2,762
Dividends paid to minority owners of subsidiaries		(102,922)	(153,316)	(29,377)	(3,549)
Distributions to owners		(963,241)	-	-	-
Net cash (outflows) inflows from returns on investments and servicing of finance		(1,806,480)	(401,236)	22,172	2,679
Taxation					
PRC income tax paid		(538,285)	(483,777)	(2,193,657)	(265,043)
Investing activities					
Purchase of property, plant and equipment		(12,696,729)	(21,352,609)	(28,547,009)	(3,449,123)
Proceeds from disposal of property, plant and equipment		-	-	131,692	15,911
Acquisition of minority interests		(228,112)	(1,525,536)	(18,537)	(2,240)
Purchase of investment in associated companies		-	(10,696)	-	-
Proceeds from disposals of associated companies		21,618	6,446	-	-
Increase in short-term bank deposits		(208,500)	(7,630,435)	(17,083,008)	(2,064,013)
Purchase of trading securities		(456,385)	(570,905)	-	-
Proceeds from disposal of trading securities		50,000	689,463	144,976	17,516
Purchase of investment securities		(4,321)	(10,903)	(21,426)	(2,589)
Proceeds from disposal of investment securities		7,184	-	5,139	621
Addition of deferred expenditures		(414,360)	(145,771)	(736,844)	(89,026)
Net cash outflows from investing activities		(13,929,605)	(30,550,946)	(46,125,017)	(5,572,943)
Net cash outflows before financing activities		(9,418,660)	(21,207,079)	(35,047,142)	(4,234,485)

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands)

	Year ended December 31,			
	1999	2000	2001	2001
	RMB	RMB	RMB	US$
Financing activities				
Proceeds from issue of ordinary shares, net of direct listing expenses	-	45,275,152	-	-
Capital contributions from owners	2,254,518	-	-	-
Proceeds of loans from CCF joint ventures	302,674	-	-	-
Repayment of loans from CCF joint ventures	(2,361,693)	(7,393,940)	-	-
Proceeds of loans from Unicom Group	7,475,258	-	-	-
Increase in amounts due to Unicom Group	529,843	316,430	126,137	15,240
Proceeds from short-term and long-term bank loans	3,123,210	23,360,879	21,243,410	2,566,683
Repayment of short-term and long-term bank loans	(239,539)	(1,637,118)	(12,626,080)	(1,525,515)
Net cash inflows from financing activities	11,084,271	59,921,403	8,743,467	1,056,408
Increase (decrease) in cash and cash equivalents	1,665,611	38,714,324	(26,303,675)	(3,178,077)
Cash and cash equivalents, beginning of year	4,336,750	6,002,361	44,716,685	5,402,784
Cash and cash equivalents, end of year	6,002,361	44,716,685	18,413,010	2,224,707

The accompanying notes are an integral part of these financial statements.

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands)

(a) The reconciliation of income before taxation and minority interests to net cash inflows from operating activities is as follows:

	Year ended December 31,			
	1999	**2000**	**2001**	**2001**
	RMB	**RMB**	**RMB**	**US$**
Income before taxation and minority interests	1,759,006	4,482,731	5,462,588	660,004
Adjustments for:				
Depreciation and amortization	3,691,019	5,734,315	8,262,296	998,272
Interest income	(105,595)	(1,748,805)	(2,096,972)	(253,361)
Interest expense	808,806	1,353,746	1,907,148	230,427
Write-off and loss on disposal of property, plant and equipment	129,347	319,659	54,475	6,582
Provisions for impairment in value of property, plant and equipment and goodwill	-	-	632,511	76,422
Provision for doubtful debts	286,666	444,831	540,954	65,359
Share of (profits) losses from associated companies	(6,202)	(258)	24,773	2,993
Dividends from investment securities	-	(9,321)	(22,864)	(2,762)
Realized gains on trading securities	(3,387)	(64,956)	(31,979)	(3,864)
Unrealized (gains) losses on trading securities	(1,357)	(31,855)	56,576	6,836
Realized gains on investment securities	(11,274)	-	(944)	(114)
Provision for (write-back) impairment in value of associated companies	12,468	7,501	(3,219)	(389)
Provision for (write-back) impairment in value of investment securities	3,390	6,812	(12,490)	(1,509)
Loss arising from terminations of CCF Arrangements	224,270	1,193,838	-	-
Increase in accounts receivable	(468,909)	(993,069)	(1,493,966)	(180,505)
Decrease (increase) in inventories	383,418	54,717	(72,302)	(8,736)
(Increase) decrease in prepayments and other current assets	(258,129)	(424,133)	187,565	22,662
Decrease in amounts due from China Telecom	877,586	798,537	176,786	21,360
Increase in amounts due from related parties	(57,086)	(433,506)	(891,497)	(107,713)
(Decrease) increase in payables and accrued liabilities	(251,015)	(164,854)	872,084	105,367
Increase in taxes payable	2,367	-	-	-
Increase (decrease) in advances from customers	304,966	(31,970)	149,865	18,107
Decrease in amounts due to China Telecom	(498,097)	(276,355)	(534,599)	(64,592)
Increase in amounts due to related parties	33,452	11,275	82,571	9,976
Net cash inflows from operating activities	6,855,710	10,228,880	13,249,360	1,600,822

(b) Significant non-cash transactions:

Payables to equipment suppliers for construction-in-progress during the year ended December 31, 2001 increased by approximately RMB2,706 million (1999: RMB4,402 million; 2000: RMB3,828 million).

During 2000, long-term bank loans of approximately RMB10,502 million previously borrowed by Unicom Group were restructured into long-term bank loans borrowed directly by China Unicom Corporation Limited (see Note 33(b)).

CHINA UNICOM LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1999, 2000 and 2001
(Expressed in thousands of RMB)

	Head office account	Share capital	Share premium	Revaluation reserve	Statutory reserve	Retained profits	Total
Owner's equity at January 1, 1999	6,407,922	-	-	-	-	-	6,407,922
Contributions from owners	2,254,518	-	-	-	-	-	2,254,518
Net income for the year	839,147	-	-	-	-	-	839,147
Distributions to owners	(963,241)	-	-	-	-	-	(963,241)
Owner's equity at December 31, 1999	8,538,346	-	-	-	-	-	8,538,346
Effect of restructuring	(8,538,346)	1,030,850	7,507,496	-	-	-	-
Shareholders' equity after restructuring	-	1,030,850	7,507,496	-	-	-	8,538,346
Revaluation surplus	-	-	-	176,853	-	-	176,853
Issue of shares, net of direct listing expenses	-	300,521	44,974,631	-	-	-	45,275,152
Net income for the year	-	-	-	-	-	3,234,051	3,234,051
Appropriation to statutory reserve (Note 14)	-	-	-	-	424,805	(424,805)	-
Balance at December 31, 2000	-	1,331,371	52,482,127	176,853	424,805	2,809,246	57,224,402
Net income for the year	-	-	-	-	-	4,456,761	4,456,761
Appropriation to statutory reserve (Note 14)	-	-	-	-	224,628	(224,628)	-
Balance at December 31, 2001	-	1,331,371	52,482,127	176,853	649,433	7,041,379	61,681,163

The accompanying notes are an integral part of these financial statements.

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on February 8, 2000 to engage in investment holding, the provision of cellular, paging, long distance, data and Internet services in the PRC. Prior to the incorporation of the Company, the paging business was carried out by Guoxin Paging Corporation Ltd. and its subsidiaries ("Guoxin") whereas the cellular and other telecommunications businesses were carried out by the head office and various branches of China United Telecommunications Corporation ("Unicom Group"). These businesses are hereinafter collectively referred to as the "Predecessor Entities". All such businesses were transferred to the Company pursuant to a restructuring (the "Restructuring"), as described below, in preparation for a global offering of the Company's shares (the "Global Offering").

Prior to and following the Restructuring, Unicom Group and Guoxin were and are under the supervision and regulation of the Ministry of Information Industry (the "MII"). The MII is a body established in 1998 under the direct supervision of the State Council of the PRC to take over the regulatory responsibility for the telecommunications industry in the PRC from its predecessor, the Ministry of Posts and Telecommunications (the "MPT").

Unicom Group was established as a state-owned enterprise in the PRC in 1994 under the approval of the State Council to build and operate cellular networks, fixed line local networks and fixed line domestic long distance networks in the PRC.

Guoxin was a subsidiary of China Telecom and was established as a limited liability company in September 1998. China Telecom originally comprised the Directorate General of Telecommunications, Provincial Post and Telecommunications Administrations (the "PTA") and the municipal and county Post and Telecommunications Bureaus (the "PTB"). All these entities were state-owned entities established under the ownership of the government. As ministries of the government, the MPT exercised actual control over the operations of China Telecom.

Guoxin operated a nationwide paging business through its 31 subsidiaries in 27 provinces and 4 municipalities in the PRC (originally undertaken by the PTAs, hereinafter referred to as the "Paging Business"). After the establishment of Guoxin, the Paging Business continued to operate under the ultimate control of the MII, until June 1999 when, pursuant to a State Council decision, the 99.67% ownership interest in Guoxin held by China Telecom was transferred to Unicom Group at no consideration.

Under the Restructuring, Unicom Group injected its entire equity interests in Guoxin, together with the following businesses, into a limited liability company established in the PRC on April 21, 2000 under the name of China Unicom Corporation Limited ("China Unicom"):

i) the cellular businesses in 9 provinces in the PRC, namely, Guangdong, Fujian, Anhui, Jiangsu, Zhejiang, Shandong, Liaoning, Hebei and Hubei; and 3 municipalities, namely, Beijing, Shanghai and Tianjin (originally undertaken by various branches of Unicom Group and hereinafter collectively referred to as the "Cellular Business");

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONT'D)

ii) the nationwide domestic and international long distance telephony businesses including Internet protocol-based telephony businesses and the nationwide data and Internet business in major cities of the PRC (originally undertaken by various branches of Unicom Group, hereinafter referred to as the "Long Distance, Data and Internet Business").

By December 31, 2001, Guoxin has already acquired all of the minority interests of 28 subsidiaries and part of the minority interests of Heilongjiang Guoxin Paging Co. Ltd. ("Heilongjiang Guoxin") and Liaoning Guoxin Paging Co. Ltd. ("Liaoning Guoxin"). These 28 paging businesses then became the wholly-owned subsidiaries of Guoxin. In addition, Guoxin deregistered the legal entity status of 22 wholly-owned subsidiaries in 21 provinces and 1 municipality in the PRC. Minority interests only existed in Heilongjiang Guoxin, Liaoning Guoxin and Unicom Guomai Communications Co. Ltd. ("Unicom Guomai").

The Company and its subsidiaries are hereinafter referred to as the "Group".

The immediate holding company of the Company is China Unicom (BVI) Limited ("Unicom BVI"). The directors of the Company consider Unicom Group to be the ultimate parent company.

2. BASIS OF PRESENTATION

The reorganization of Guoxin and the subsequent transfer of its ownership to Unicom Group were completed pursuant to restructuring plans for the telecommunications industry of the PRC approved by the State Council and implemented through the MII. Prior to and following the Restructuring, both Unicom Group and Guoxin continued to be governed by the strategic-planning and policy-making mechanism of the State Council and the MII. Accordingly, the reorganization of Guoxin and the combination of Unicom Group and Guoxin are considered to be a reorganization of businesses under the common control of the State Council. In addition, upon the transfer of the ownership interest in Guoxin from China Telecom to Unicom Group, Unicom Group controlled all the Predecessor Entities prior to the Restructuring and continued to control the Company after the Restructuring. Accordingly, the series of combination of the various telecommunications businesses and the transfer of these businesses from Unicom Group to the Company as described in Note 1 above have been accounted for as a reorganization of entities under common control by using merger accounting (in a manner similar to a pooling of interests) as if the Group had been operating continuously throughout the periods presented.

2. BASIS OF PRESENTATION (CONT'D)

On the basis described above, the financial statements for the year ended December 31, 1999 and 2000 were prepared to present the combined results of operations and cash flows of the Predecessor Entities, now comprising the Group and the financial position of the Group as of December 31, 2000 as if the state-owned interests in the Group had been held continuously by the Group since January 1, 1999 and the business activities had been conducted by the Group throughout the years ended December 31, 1999 and 2000. Consequently, the assets, liabilities, revenues and expenses that were clearly identifiable with the businesses and operations transferred to the Group were included at their recorded amounts. Other amounts for which the specific identification method was not practical were not material and were allocated on the following basis:

Items allocated	**Allocation Basis**
Salaries	Number of employees
Accounting and legal services	Number of employees
Training	Number of employees
Retirement benefits	Number of employees
Rent and depreciation	Floor area
Other selling, general and administrative expenses	Number of employees/revenue

Management believed that the above was a reasonable basis of estimating what the Group's expenses would have been on a stand-alone basis.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of land use rights and buildings, and in accordance with Statements of Standard Accounting Practice ("HK SSAP") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"). This basis of accounting differs from that used in the preparation of financial statements for PRC statutory reporting purposes, which were based on the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP").

The principal adjustments made to conform to HK GAAP include the following:

- Reversal of revaluation surplus and related depreciation and amortization charges arising from the revaluation of assets performed by independent valuers registered in the PRC;
- Additional accrual for retirement benefits;
- Additional provision for housing benefits;
- Additional capitalization of interest expenses;
- Provision for deferred taxation; and
- Recognized loss arising from the terminations of CCF Arrangements as one-time losses.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in the preparation of the financial statements, which conform to HK GAAP, are as follows:

(a) Adoption of Statements of Standard Accounting Practice

For the year ended December 31, 2001, the Group adopted, for the first time, the following HK SSAP issued by the Hong Kong Society of Accountants:

SSAP9 (revised)	Events after the balance sheet date
SSAP14 (revised)	Leases
SSAP26	Segment reporting
SSAP28	Provisions, contingent liabilities and contingent assets
SSAP29	Intangible assets
SSAP30	Business combinations
SSAP31	Impairment of assets
SSAP32	Consolidated financial statements and accounting for investments in subsidiaries

The impact of the adoption of the new standards on the Group's consolidated operating results and financial position is not significant and, accordingly, no prior period adjustment has been made.

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Company has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. In addition, the Company holds, either directly or indirectly, more than 50% of the issued share capital or controls more than half of the voting power or the composition of the Board of Directors of the subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority owners' interests are shown separately in the balance sheet and the statement of income, respectively.

All significant intercompany transactions and balances, and any unrealized gains arising from intercompany transaction, have been eliminated on consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with HK GAAP requires management to make estimates and assumptions that affect the reported amount and disclosures. Accordingly, actual results may differ from those estimates and assumptions.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment

Property, plant and equipment, other than land use rights and buildings, 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 capitalized as an additional cost of the assets.

Land use rights and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on March 31, 2000. In the intervening years, the directors review the carrying value of land use rights and buildings and adjustment is made where in the directors' opinion there has been a material change in value.

Any increase in land use rights and buildings valuation is credited to the revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the statement of income.

Upon the disposal of revalued land use rights and buildings, the realized portion of the revaluation reserve is transferred from the valuation reserve to retained profits.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, after taking into consideration their estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life	Residual value
Land use rights	Over the period of grant	-
Buildings	8 – 40 years	3%
Leasehold improvements	Over the lease term	-
Telecommunications equipment	4 – 11 years	3%
Office furniture, fixtures and other	4 – 14 years	3%

The carrying amount of property, plant and equipment stated at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense unless it reverses a previous revaluation increase, in which case, it is charged against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. In determining the recoverable amount, expected future cash flows generated by the property, plant and equipment are discounted to their present values.

A subsequent increase in the recoverable amount is written back to the statement of income when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

When assets are sold or retired, their costs and accumulated depreciation and accumulated impairment losses are eliminated from the accounts, any gain or loss resulting from their disposals is included in the statement of income.

(e) Construction-in-progress

Construction-in-progress represents buildings under construction and plant and equipment 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 as the assets are completed and ready for use.

(f) Goodwill

Goodwill represents the excess of purchase consideration over the Group's interests in the fair values of the net identifiable assets and liabilities acquired as at the date of acquisition. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is amortized on a straight-line method over the economic lives of the acquired businesses, estimated to be 5 to 7 years. When later events and circumstances occur which indicate the remaining balance of goodwill may not be recoverable, the unamortized balance is written down to its estimated recoverable amount. Estimated recoverable amount is determined based on estimated discounted future net cash flows of the related business over its remaining life.

(g) Deferred expenditures and amortization

Deferred expenditures mainly represent (i) expenditures on facilities for interconnection with other operators, for which the Group has a permanent use right, and (ii) housing benefits arising from selling staff quarters to employees at preferential prices lower than cost. Expenditures on interconnection facilities are amortized using the straight-line method over the expected period of benefit of 5 years. Housing benefits are amortized to expense using the straight-line method over the estimated service lives of the employees.

(h) Investments in securities

Investment securities

Equity securities intended to be held on a continuing basis are classified as investment securities and recorded at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at the end of each year to assess whether the fair values have declined below the carrying amounts. If such a decline has occurred, the carrying amounts are reduced and the reduction is recognized as an expense unless there is evidence that the decline is temporary.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(h) Investments in securities (Cont'd)

Provisions against the carrying value of investment securities are reversed when the circumstances and events that leading to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of investment securities, profit or loss thereon is accounted for in the statement of income.

Trading securities

Trading securities represent government bonds and marketable securities held for dealing purposes and are included in the balance sheet at their fair values. Any changes in fair values of trading securities are recognized in the statement of income when they arise.

Upon disposal of trading securities, profit and loss is accounted for in the statement of income.

(i) Subsidiaries

A subsidiary is an enterprise in which the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment or otherwise has the power to control the financial and operating policies of the enterprise.

(j) Associated companies

An associated company is an enterprise in which the Company has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associated companies is accounted for under the equity method, whereby the investment is initially recorded at cost and the carrying amount is adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the associated company, distributions received from the associated company and other adjustments arising from changes in the equity of the associated company that have not been included in the statement of income.

Where, in the opinion of the directors, there is an impairment in value of an associated company, permanently reduced below its carrying value, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of 3 months or less and that are subject to an insignificant risk of change in value.

(l) 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 one year.

(m)Accounts and other receivables

Accounts and other receivables are stated at their cost, after provision for doubtful debts.

(n) Inventories

Inventories, which principally comprise handsets, SIM cards, pagers and accessories, are stated at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized. Write-downs to net realizable value and losses of inventories are recognized as an expense in the year the write-down or loss occurs.

(o) Advances from customers

Advances from customers are monthly fees paid by subscribers in advance or amounts paid by customers for GSM prepaid cards, Internet protocol ("IP") telephone cards and other calling cards which cover future telecommunications services (over a period of 3 to 12 months). Customer advances are stated at the amount of proceeds received less the amount already recognized as revenues upon the rendering of services.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(p) Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. Title may or may not eventually be transferred. The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

(q) Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments or lease rental received under an operating lease are recognized as an expense or income on a straight-line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(r) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. Interest charges are expensed as incurred, except for interest directly attributable to a construction project, that necessarily takes a substantial period of time to prepare for its intended use, in which case they are capitalized as part of the cost of the project. Capitalization 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. Interest is capitalized 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 capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

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 capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing cost incurred during that period.

The capitalized interest rate represents the cost of capital from raising the related borrowings externally and varies from 5.46% to 7.65% for the year ended December 31, 2001 (1999: 5.85% to 6.84%; 2000: 4.95% to 6.66%).

(s) Provisions

A provision is recognized when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(t) Revenue recognition

(1) Revenue is recognized 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 bases:

- Usage fees are recognized when the service is rendered;
- Monthly fees are recognized as revenue in the month during which the services are rendered;
- Connection fees are recognized as revenue upon activation of service for subscribers;
- Revenue from IP card and other calling card sales, which represents prepaid service fees received from customers for telephony services, is recognized when the related service is rendered upon actual usage of the telephone cards by customers;
- Leased line rental income is recognized on the straight-line basis over the lease term;
- Sales of telecommunications products, such as handsets, SIM cards and pagers, are recognized when title has passed to the buyers.

(2) Interest income

Interest income from deposits in banks or other financial institutions is recognized on the accrual basis.

(u) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB"), which is not freely convertible into foreign currencies. Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at exchange rates prevailing at the balance sheet date. Exchange gains or losses arising from changes in exchange rates subsequent to the transaction dates are included in the statement of income.

For the convenience of the reader, translation of amounts from RMB into United States dollars ("US$") has been made at the noon buying rate in New York city for cable transfer payables in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001 of US$1.00=RMB8.7266. No representation is made that RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2001, or at any other rate.

(v) Retirement benefits

The cost of providing retirement benefits under defined benefit schemes is charged to expense over the expected service lives of the employees. The fixed contributions for retirement benefits made under defined contribution schemes are charged to expense as incurred.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(w) Taxation

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.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between income as computed for taxation purposes and income as stated in the statement of income. A deferred tax asset is not recognized unless the related benefits are expected to crystallize in the foreseeable future.

(x) Impairment of assets

Property, plant and equipment, goodwill, investment in associated companies and securities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income for assets carried at cost and treated as a revaluation decrease for land use rights and buildings that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same land use rights and buildings. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future net cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Provision for impairment loss is classified under "general, administrative and other expenses" as a component of operating expenses. Reversal of impairment losses recognized in prior years is recorded when the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statement of income or as a revaluation increase.

(y) 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.

(z) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(aa)Events after the balance sheet date

Events after the balance sheet date that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

(ab)Net income per share and per American Depository Share ("ADS")

Basic net income per shares has been computed by dividing the net income by the number of weighted average number of ordinary shares outstanding during the year.

Diluted net income per share has been computed by dividing the net income by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

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

4. REVENUE

Revenue is primarily comprised of usage fees, monthly fees, connection fees and interconnection revenue earned by the Group by providing cellular, paging, long distance, data and Internet services. Tariffs for these services are subject to regulations by various government authorities, including the State Development Planning Commission, the MII and the provincial regulatory authorities.

Revenue is net of business tax, government surcharges and central irrigation construction levy, where applicable.

The major components of the revenue are as follows:

		Year ended December 31,		
	Note	**1999**	**2000**	**2001**
		RMB '000	**RMB '000**	**RMB '000**
Cellular Business				
Usage fee	(i)(a)	3,188,850	8,212,332	14,937,448
Monthly fee	(ii)	1,116,696	2,476,104	3,660,473
Connection fee	(iii)	673,912	517,642	204,986
Interconnection revenue	(iv)	207,978	753,591	1,262,267
Other revenue	(vi)	126,813	228,135	439,884
Total Cellular Business revenue		5,314,249	12,187,804	20,505,058
Paging Business				
Monthly fee	(ii)	8,901,275	7,992,999	4,141,232
Connection fee	(iii)	93,790	68,233	1,595
Other revenue	(vi)	51,846	422,258	198,997
Total Paging Business revenue		9,046,911	8,483,490	4,341,824
Long Distance, Data and Internet Business				
Usage fee	(i)(b)	79,159	470,526	2,120,997
Monthly fee	(ii)	-	7,076	-
Interconnection revenue	(iv)	-	293,745	724,624
Leased line rental	(v)	-	321,255	427,195
Other revenue	(vi)	-	3,792	36,128
Total Long Distance, Data and Internet Business revenue		79,159	1,096,394	3,308,944
Total service revenue		14,440,319	21,767,688	28,155,826
Sales of telecommunications products		3,009,688	1,924,770	1,237,060
Total revenue		17,450,007	23,692,458	29,392,886

4. REVENUE (CONT'D)

Notes:

(i) Usage fees comprise:

  (a) 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.

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

(ii) Monthly fees represent fixed amounts charged to cellular, paging, and data and Internet subscribers on a monthly basis for maintaining their access to the related services.

(iii) Connection fees are charged to cellular and paging subscribers for the one-time activation service rendered to connect the cellular subscribers to the Group's cellular network or to reconfigure the receiving frequency of the subscribers' pagers to the Group's paging network.

(iv) 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.

(v) Leased line rental income represents rentals received for leasing of transmission lines to Unicom Group, business customers and other carriers in the PRC.

(vi) Other revenue mainly represents revenue from the provision of value-added services to subscribers and commission revenue for providing agency services to sell telecommunications products for Unicom Group.

5. FINANCIAL INCOME

Financial income for year ended December 31, 2001 mainly represents interest income arising from the proceeds of the Global Offering amounting to approximately RMB2,096,972,000 (2000: RMB1,748,805,000).

6. INCOME BEFORE TAXATION AND MINORITY INTERESTS

Income before taxation and minority interests is arrived at after crediting and charging the following:

	Note	Year ended December 31, 1999 RMB '000	2000 RMB '000	2001 RMB '000
After crediting/(charging):				
Interest income	5	105,595	1,748,805	2,096,972
(Losses) gains from exchange difference	8	-	(30,881)	14,476
Share of profits (losses) from associated companies	8	6,202	258	(24,773)
Dividends from investment securities		-	9,321	22,864
Realized gains on investment securities		11,274	-	944
Realized gains on trading securities	8	3,387	64,956	31,979
Unrealized gains (losses) on trading securities	8	1,357	31,855	(56,576)
After charging/(crediting):				
Financial expense:				
Interest on bank loans repayable within five years		57,866	1,558,090	2,593,402
Interest on loans from Unicom Group repayable within five years		456,898	48,313	-
Interest on loans from CCF joint ventures repayable within five years		568,727	-	-
Less: amounts capitalized in construction-in-progress		(274,685)	(252,657)	(686,254)
Total interest expense		808,806	1,353,746	1,907,148
Bank charges		-	-	10,418
Total financial expense		808,806	1,353,746	1,917,566
Depreciation and amortization				
- Assets held under finance leases		-	-	9,327
- Other assets		3,691,019	5,734,315	8,252,969
Total depreciation and amortization		3,691,019	5,734,315	8,262,296
Operating rental lease expenses	7(iv)	466,493	546,165	569,954
Loss on disposal of property, plant and equipment	7(iv), 20	-	277,973	54,475
Auditors' remuneration		10,262	47,030	52,972
Provision (write-back) for doubtful debts				
- Cellular Business		193,232	355,082	517,663
- Paging Business		93,434	85,430	(14,510)
- Long Distance, Data and Internet Business		-	4,319	37,801
Total provision for doubtful debts	7(iv)	286,666	444,831	540,954

6. INCOME BEFORE TAXATION AND MINORITY INTERESTS (CONT'D)

	Note	Year ended December 31, 1999 RMB '000	2000 RMB '000	2001 RMB '000
After charging/(crediting):				
Personnel:				
- Salaries and wages		1,478,348	1,573,147	2,156,911
- Contributions to defined contribution pension schemes	12	142,841	148,322	163,500
- Special monetary housing benefits	13	-	-	88,911
- Contributions to housing fund	13	38,660	44,333	69,963
- Other housing benefits	13	53,323	4,038	7,933
Total personnel	7(iii)	1,713,172	1,769,840	2,487,218
Provision for impairment in value of:				
- Property, plant and equipment	20	-	-	468,611
- Goodwill	21	-	-	163,900
Total provision for impairment	7(iv)	-	-	632,511
Provision (write-back) for impairment in value of investments in:				
- Associated companies		12,468	7,501	(3,219)
- Investment securities		3,390	6,812	(12,490)
Total provision for impairment in investments		15,858	14,313	(15,709)

7. OPERATING EXPENSES

The nature of the major components of operating expenses is as follows:

(i) Leased line charges are incurred in association with leasing of transmission capacity from other operators.

(ii) Interconnection charges represent amounts paid to other operators, including Unicom Group, for calls from the Group's networks to the networks of other operators.

(iii) Personnel costs comprise staff salaries, bonuses and medical benefits, contributions to employee retirement schemes and housing benefits.

(iv) General, administrative and other expenses are analyzed as follows:

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Operating lease rental expenses	466,493	546,165	569,954
Repair and maintenance expenses	379,021	635,197	424,614
Provision for doubtful debts	286,666	444,831	540,954
Loss on disposal of property, plant and equipment	-	277,973	54,475
Provisions for impairment in value of property, plant and equipment and goodwill	-	-	632,511
Travelling, entertainment and meeting expenses	188,408	389,335	612,592
Power and water charges	222,835	229,308	473,774
Office expenses	276,432	385,980	587,727
Other	766,547	834,274	1,602,396
	2,586,402	3,743,063	5,498,997

8. OTHER (EXPENSES) INCOME, NET

		Year ended December 31,		
	Note	**1999**	**2000**	**2001**
		RMB '000	**RMB '000**	**RMB '000**
Realized gains on trading securities		3,387	64,956	31,979
Unrealized gains (losses) on trading securities		1,357	31,855	(56,576)
Share of profits (losses) from associated companies		6,202	258	(24,773)
(Losses) gains from exchange difference		-	(30,881)	14,476
Other	(i)	(140,289)	(6,959)	54,725
		(129,343)	59,229	19,831

Note:

(i) Other in 1999 mainly represented the write-off of redundant property, plant and equipment in relation to the disposal of obsolete paging equipment caused by the integration and optimization of the country-wide paging networks after the separation of Guoxin from China Telecom.

9. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

Prior to the incorporation of the Company, as branches of Unicom Group, the Cellular Business and the Long Distance, Data and Internet Business had no directors and senior management of their own, but operated under the management of Unicom Group. Similarly, prior to the establishment of Guoxin, the Paging Business was under the management of the PTAs and did not have its own senior management, and there were no directors in the management structure of the PTAs. Accordingly, the following information for 1999 represent emoluments paid by Unicom Group to its directors, senior executives and supervisors. For 2000 and 2001, the information represents emoluments paid to the directors, senior executives and supervisors of the Company.

(a) Details of directors' emoluments pursuant to Section 161 of the Company Ordinance are set out below:

	Year ended December 31,		
	1999	2000	2001
	RMB '000	RMB '000	RMB '000
Non-executive directors:			
Fees	-	-	1,273
Executive directors:			
Fees	-	-	-
Other emoluments			
- Salaries, allowance and other allowances	110	2,825	9,083
- Pension benefits/pension scheme contributions	87	52	124
- Bonus paid/payables	35	222	11,162
	232	3,099	20,369
	232	3,099	21,642

The emoluments of the directors analyzed by the number of directors and emolument ranges were as follows:

	Year ended December 31,		
(All amounts expressed in Hong Kong dollars)	1999	2000	2001
Up to $1,000,000	2	5	4
$2,500,001 - $3,000,000	-	-	2
$3,500,001 - $4,000,000	-	-	1
$4,000,001 - $4,500,000	-	-	1
$4,500,001 - $5,500,000	-	-	1
	2	5	9

No directors waived the right to receive emoluments during the year.

9. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS (CONT'D)

(b) Details of five highest paid individuals:

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Salaries, allowance and other allowances	269	2,825	9,083
Pension benefits/pension scheme contributions	201	52	124
Bonuses paid and payable	84	222	11,162
	554	3,099	20,369

Of the five highest paid individuals of the Group, all (1999: 2; 2000: All) are directors of the Company whose emoluments are included above.

No emolument was paid to the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

10. TAXATION

Provision for taxation represents:

	Year ended December 31,		
	1999	2000	2001
	RMB '000	RMB '000	RMB '000
PRC enterprise income tax	647,285	1,619,169	1,608,825
Deferred taxation	(91,626)	(514,200)	(567,688)
	555,659	1,104,969	1,041,137

There is no Hong Kong profits tax liabilities as the Group does not have any assessable income sourced from Hong Kong for the years ended December 31, 1999, 2000 and 2001.

For 1999, the provincial branches and the head office of Unicom Group were not themselves subject to enterprise income tax individually because Unicom Group was assessed for income tax liability on a consolidated basis as a single entity and was subject to the statutory tax rate of 33%. The tax provisions for the Cellular Business and Long Distance, Data and Internet Business of the Group were determined on a separate return basis using the aforementioned tax policy applicable to Unicom Group. Under this basis, the tax liabilities attributable to the Cellular Business and Long Distance, Data and Internet Business of the Group for 1999 were determined as if they were assessable for income tax separately from Unicom Group. For 2000, the provincial branches and the head office of China Unicom was assessed for income tax liability on a consolidated basis as a single entity and were subject to the statutory tax rate of 33%.

On the other hand, most of Guoxin’s subsidiaries were individually subject to enterprise income tax at the rate of 33% and certain subsidiaries were granted by tax authorities a reduced income tax rate of 15%.

For 2001, China Unicom has obtained new tax approval and the income tax liability was assessed as follows:

(a) China Unicom was approved as foreign investment enterprise (“FIE”) and the tax liability for the year of 2001 was assessed in accordance with FIE taxation requirement.

(b) China Unicom was assessed for income tax liability on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing tax authority.

(c) Starting from January 1, 2001, Guoxin and its subsidiaries (except for Unicom Guomai) were subject to the FIE taxation requirement as stated in note (a) above and assessed for income tax liability on a consolidated basis with China Unicom as a single entity.

10. TAXATION (CONT'D)

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

	Year ended December 31,		
	1999	**2000**	**2001**
PRC			
Statutory tax rate of 33%	33.0%	33.0%	33.0%
Non-deductible expenses:			
- Depreciation	7.5	-	-
- Housing benefits	-	-	2.2
- Personnel expenses	-	2.0	0.7
- Selling and marketing expenses	-	2.9	-
- Other	-	0.5	1.2
Non-taxable income:			
- Connection fees	(12.2)	(2.6)	-
Effect of tax holiday	(4.4)	(1.3)	(2.7)
Non-recognition of deferred taxes:			
- Deferral of revenue from IP card sales	1.6	-	-
- Provision for doubtful debts of Cellular Business	4.6	3.8	4.6
Additional depreciation deductible for tax purpose from 2001	-	-	(9.8)
Other	1.5	(0.2)	-
Effective PRC income tax rate	31.6%	38.1%	29.2%
Hong Kong			
Statutory tax rate of 16%	N/A	16.0%	16.0%
Non-taxable income:			
- Interest income	-	(16.0)	(16.0)
Effective HK income tax rate	-	-	-
Total overall effective income tax rate	31.6%	24.7%	19.1%

Tax effect of tax holiday is as follows:

	Year ended December 31,		
	1999	**2000**	**2001**
Aggregate amount (RMB in millions)	77.0	37.9	83.6
Per share effect (RMB)	0.008	0.003	0.007

10. TAXATION (CONT'D)

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

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Deferred tax assets:		
Interest on loans from CCF joint ventures	439,479	317,447
Loss arising from terminations of CCF Arrangements	298,331	348,082
Income tax on advances from customers for telephone cards	189,915	529,049
Operating loss of the Cellular Business	14,709	-
Difference in goodwill amortization period	18,284	23,590
Provision for impairment in value for property, plant and equipment	-	154,642
Provision or impairment in value for goodwill	-	54,087
Provision for doubtful debts of Paging Business and Long Distance, Data and Internet Business	46,450	53,223
Write-off of deferred expenditures	136,848	24,368
Write-down of inventory to net realizable value	21,856	35,819
Amortization of retirement benefits	41,241	39,852
Additional depreciation deductible for tax purpose from 2001	-	232,291
Other	86,120	20,590
	1,293,233	1,833,040
Deferred tax liabilities:		
Accelerated depreciation for tax purpose	(239,143)	(129,526)
Other	(40,370)	(122,106)
	(279,513)	(251,632)
Net deferred tax assets	1,013,720	1,581,408
Less: Current portion of deferred tax assets	(19,642)	(569,192)
	994,078	1,012,216

Deferred tax assets not recognized consist of the following:

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Tax effect of provision for doubtful debts of Cellular Business	228,061	373,159
Tax effect of operating loss of a subsidiary	107,299	107,299

11. CHINA-CHINA-FOREIGN ARRANGEMENTS AND THEIR TERMINATIONS

In the process of developing its cellular network, the Cellular Business entered into cooperation agreements with certain contractual joint venture companies (the "CJVs") established in the PRC. Each CJV was established by one or more Chinese enterprises and one or more foreign parties. The cooperation arrangements between the Cellular Business and the CJVs are hereinafter referred to as the China-China-Foreign Arrangements (the "CCF Arrangements").

Pursuant to the CCF Arrangements, the CJVs extended funding to the Cellular Business for the construction of telecommunications systems and network equipment in the PRC. Upon completion of construction, the Cellular Business was responsible for operating the systems. In return for funding the construction of the cellular networks, the CJVs were entitled to receive (usually on an annual or semi-annual basis) from the Cellular Business a fixed proportion of the cash flows generated from the operations of the cellular networks. It was anticipated at the inception of the CCF Arrangements that such periodic distributions of cash would be sufficient for the CJVs to recover their principal together with a reasonable return. The cooperation periods under these CCF Arrangements generally ranged from twelve to fifteen years. As security, the fixed assets during the cooperation periods were held by the CJVs in a manner similar to a pledging arrangement under a mortgage loan. Accordingly, the CCF Arrangements were accounted for as secured financing arrangements. At the end of the cooperation periods, the CJVs' rights to share the cash flows from the cellular networks and the security rights in the underlying fixed assets were to be relinquished.

The estimated costs of the funding provided by the CJVs were accrued over the cooperation periods and accounted for as interest costs. The accrual was made using the then-prevailing market interest rates applicable to long-term bank loans which ranged from 6.21% to 8.01% for 1999. As all CCF Arrangements were terminated in early 2000, no further interest was accrued during that year.

The periodic cash distribution to the CJVs in excess of the accrued interest payable was accounted for as repayment of principal. Since the amount and the timing of the periodic cash distributions to the CJVs were not fixed and depended on the actual cash flows generated by the operations of the cellular networks, the CCF Arrangements were treated as long-term borrowings with no fixed repayment schedules. The entire outstanding amounts of approximately RMB6,200 million in relation to those CCF Arrangements were terminated in 2000 (as further discussed below).

Certain CCF Arrangements were terminated in 1999 and all the remaining CCF Arrangements were terminated in 2000. Pursuant to the termination agreements signed between the CJVs and Unicom Group, compensation in the form of cash and share warrants was paid to the CJVs. The aggregate losses arising from the extinguishment of these CCF debts amounted to approximately RMB1,194 million for 2000 (1999: RMB224 million). The losses were calculated based on the difference between the net carrying amounts of the outstanding CCF debts being terminated, which amounted to approximately RMB6,263 million for 2000 (1999: RMB1,777 million), and the total cash compensation amounts of approximately RMB7,457 million for 2000 (1999: RMB2,001 million) made to the CJVs.

Substantially all of the total cash compensation of approximately RMB7,457 million (1999: RMB2,001 million) was financed by long-term bank loans originally borrowed by Unicom Group, which were restructured into long-term loans borrowed directly by China Unicom in 2000 (see Note 33(b)).

11. CHINA-CHINA-FOREIGN ARRANGEMENTS AND THEIR TERMINATIONS (CONT'D)

Apart from the cash compensation, share warrants were granted to the CJVs or their designees as part of the compensation for the termination of the CCF Arrangements in 2000. These share warrants allowed the holders to subscribe for new shares of the Company at the initial public offering price. The total exercise value of the share warrants granted to the CJVs or their designees was fixed, amounting to approximately RMB5,024 million in aggregate. The exercise period lasted for six months following the date that is six months after the Global Offering, June 22, 2000. As of December 31, 2001, all share warrants expired and no share warrants were exercised by these CJVs or their designees.

12. 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 contributions to the state-sponsored pension scheme at the rate of 19% for 2001 (1999 and 2000: 19.1%) 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 August 11, 1998, a supplementary defined contribution pension plan managed by an independent insurance company was established. Under this plan, the Group makes a monthly contribution of 2% to 6% of the monthly salary of each employee. There were no vested benefits attributable to past services upon adoption of the plan.

Prior to May 31, 1998, the Paging Business also provided a defined benefit supplementary pension plan managed by China Telecom. The average annual supplementary pension payment was approximately RMB2,000 to RMB5,000 per retiree as of May 31, 1998. The estimated pension costs were amortized over the past service period of the retirees. Upon Guoxin's establishment, China Telecom agreed to take up the pension liabilities under this supplementary pension scheme for approximately 3,000 employees of China Telecom who had worked for the Paging Business before their retirement prior to May 31, 1998. In return, Guoxin agreed to pay China Telecom approximately RMB163 million which approximated the accrued pension liabilities for this group of retirees as of May 31, 1998. Thereafter, Guoxin ceased to provide this supplementary pension scheme to its employees. An actuarial valuation was carried out by Towers Perrin, Inc., which is registered in the Society of Actuaries in the United States of America, for this group of retirees as of May 31, 1998 to evaluate the funding adequacy of the accrued pension liabilities for the supplementary pension. In the opinion of the actuary, the aforementioned funding was sufficient to cover 100% of the accrued pension liabilities of this group of retirees as of May 31, 1998 on the basis provided by the Group. The key assumptions used by the actuary in the actuarial valuation are a discount rate of 2.5% per annum and the China Life Annuitant Mortality Table.

12. RETIREMENT BENEFITS (CONT'D)

Retirement benefits charged to the statement of income were as follows:

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Contributions to defined contribution pension schemes	142,841	148,322	163,500

13. HOUSING BENEFITS

Under housing reform schemes in accordance with government regulations at the provincial level, the Group provided benefits to certain qualified employees to enable them to purchase living quarters at a discount. In the case of Guoxin, the living quarters were provided by China Telecom prior to the establishment of Guoxin and the related benefits were not charged to the Group. In the case of the Cellular 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 RMB18.5 million for 2001 (1999: RMB15.6 million; 2000: RMB18.5 million).

Subsequent to the establishment of Guoxin, for living quarters purchased or built by the Group, the liability to provide the housing benefits was recognized by the Group upon finalization of the allocation of the housing units to specific employees. The amount of the benefits was the difference between the cost of the quarters purchased by the employees and the amount actually charged to the employees. The benefits are recorded as expenses over the estimated remaining average service life of the participating employees.

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 from 5% to 10% (1999 and 2000: 5%) of the employees' basic salaries.

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.

13. HOUSING BENEFITS (CONT'D)

During 2001, the Group finalized its monetary housing benefit scheme as a special employee incentive scheme for all qualified employees. 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 year ended December 31, 2001, only 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 year ended December 31, 2001 amounted to approximately RMB88,911,000, representing their first 40% entitlements. The remaining provinces were not entitled to the special monetary housing benefits in 2001 since they did not achieve their annual performance budget in 2001 and accordingly, no provision for such benefits was made.

The expenses incurred by the Group in relation to the housing benefits described above were as follows (excluding those paid by Unicom Group and China Telecom and not charged to the Group):

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Special monetary housing benefits	-	-	88,911
Contributions to housing fund	38,660	44,333	69,963
Other housing benefits	53,323	4,038	7,933
	91,983	48,371	166,807

14. DISTRIBUTION OF INCOME

Prior to the Restructuring, the Cellular Business received funding from Unicom Group. Similarly, the Paging Business prior to the establishment of Guoxin received funding from China Telecom. Such funding was recorded as head office account. Prior to the Restructuring, retained earnings or accumulated deficits were recorded as changes in head office account. Periodically, the Cellular Business and the Paging Business made cash distributions to Unicom Group or to China Telecom. These cash distributions were deducted from head office account.

On April 21, 2000, China Unicom was established as a foreign investment enterprise in the PRC. In accordance with the Article of Association of China Unicom, China Unicom is required to provide for certain statutory reserves, namely, general reserve fund and staff bonus and welfare fund, which are appropriated from net income after taxation but before dividend distribution.

China Unicom is required to allocate at least 10% of its income after tax 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 by the relevant authority, to offset accumulated losses or increase capital.

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 HK GAAP, the appropriations to the staff bonus and welfare fund will be charged to the statement of income as expenses incurred since any assets acquired through this fund belong to the employees. For the years ended December 31, 2000 and 2001, no appropriation to staff bonus and welfare fund has been made.

According to the Board of Directors' meeting dated on March 17, 2002, China Unicom appropriated approximately RMB224,628,000 to the statutory reserve (1999: Nil; 2000: RMB424,805,000).

For the year ended December 31, 2001, income attributable to shareholders included a profit of approximately RMB1,981,843,000 (1999: Nil; 2000: RMB1,584,848,000) which has been dealt with in the accounts of the Company. As of December 31, 2001, the amount of distributable reserves of the Company amounted to approximately RMB3,566,691,000 (1999: Nil; 2000: RMB1,584,848,000).

The Board of Directors of the Company does not recommend the payment of any dividends to the shareholders for the year ended December 31, 2001 (1999 and 2000: Nil).

15. NET INCOME PER SHARE

Net income per share and per American Depository Share ("ADS")

Basic net income per share for the year ended December 31, 1999 was computed by dividing the net income by the number of shares outstanding immediately prior to the Global Offering in June 2000 without adjusting for the pro forma changes in the number of new shares that resulted from additional contributions from Unicom Group over time.

Basic net income per share for the year ended December 31, 2000 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year, assuming the Company had been in existence since January 1, 2000.

Basic net income per share for the year ended December 31, 2001 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year.

Diluted net income per share for the year ended December 31, 2000 was computed by dividing the net income by the weighted average number of ordinary shares in issue during the year, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arose from share options granted to the directors or senior management under the Pre-Global Offering Share Option Scheme and share warrants as described in Note 11 and the over-allotment option granted to the underwriters, which if converted to ordinary shares would decrease profit attributable to the shareholders per share.

For the year ended December 31, 2001, all potential dilutive shares arose from share options granted under (i) the Pre-Global Offering Share Option Scheme in 2000 and (ii) the Share Option Scheme in 2001. There was no dilution of net income per share for the current year after taking into account the dilutive effect of the share options. In 2001, anti-dilutive shares arising from the share options of approximately 30,451,000 shares (2000: Nil) were not included in the calculation of diluted net income per share.

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

Reconciliation of the numerators and denominators of the basic and diluted net income per share computations:

	Year ended December 31,								
	1999			2000			2001		
	Net income	Shares	Per share amount	Net income	Shares	Per share amount	Net income	Shares	Per share amount
	RMB '000	'000	RMB	RMB '000	'000	RMB	RMB '000	'000	RMB
Basic net income	839,147	9,725,000	0.09	3,234,05	11,208,224	0.29	4,456,761	12,552,996	0.36
Effect of conversion of share options and share warrants	-	-	-	-	11,455	-	-	-	-
Diluted net income	839,147	9,725,000	0.09	3,234,051	11,219,679	0.29	4,456,761	12,552,996	0.36

16. TRADING SECURITIES

Trading securities represented listed equity securities and debt securities in the PRC, which were stated at their market values. The realized gains on trading securities for the year ended December 31, 2001 amounted to approximately RMB31,979,000 (1999: RMB3,387,0000; 2000: RMB64,956,000) and the unrealized losses amounted to RMB56,576,000 (1999 and 2000: unrealized gains of RMB1,357,000 and RMB31,855,000 respectively). There have been no significant changes in the market value of the listed securities after the balance sheet date.

17. ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2000	**2001**
	RMB '000	**RMB '000**
Accounts receivable for Cellular Business	1,890,338	2,787,993
Accounts receivable for Paging Business	109,813	130,172
Accounts receivable for Long Distance, Data and Internet Business	216,794	585,835
Sub-total	2,216,945	3,504,000
Less: Provision for doubtful debts for Cellular Business	(620,935)	(931,687)
Provision for doubtful debts for Paging Business	(46,641)	(32,131)
Provision for doubtful debts for Long Distance, Data and Internet Business	(4,318)	(42,119)
	1,545,051	2,498,063

The aging analysis of accounts receivable was as follows:

	As of December 31,	
	1999	**2000**
	RMB '000	**RMB '000**
Less than six months	1,970,206	2,939,485
Six months to one year	246,739	314,028
More than one year	-	250,487
	2,216,945	3,504,000

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

17. ACCOUNTS RECEIVABLE, NET (CONT'D)

Provision for doubtful debts was analyzed as follows:

	Year ended December 31,		
	1999	2000	2001
	RMB '000	RMB '000	RMB '000
Balance, beginning of year	195,045	407,261	671,894
Provision for the year	286,666	444,831	540,954
Written-off for the year	(74,450)	(180,198)	(206,911)
Balance, end of year	407,261	671,894	1,005,937

18. INVENTORIES

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Handsets and telephone cards	219,201	559,553
Pagers	371,967	116,847
Other	88,521	75,591
	679,689	751,991

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Deposits and prepayments	797,192	620,419
Interest receivable	665,657	167,004
Advances to employees	31,663	58,069
Other	171,149	124,069
	1,665,661	969,561

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

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Within one year	1,665,661	906,225
Over one year	-	63,336
	1,665,661	969,561

20. PROPERTY, PLANT AND EQUIPMENT, NET

	2001						2000
	Land use rights and buildings	Telecommun-ications equipment	Office furniture, fixtures and others	Leasehold improvements	Construction-in- progress	Total	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Cost or valuation:							
Beginning of year	4,043,384	45,335,956	1,994,544	619,957	13,136,373	65,130,214	40,320,423
Revaluations	-	-	-	-	- 1	-	148,853
Additions	163,013	203,395	118,954	58,920	30,719,850	31,264,132	25,331,490
Transfer from CIP	2,051,683	24,142,889	550,855	-	(26,745,427)	-	-
Disposals	(53,348)	(189,910)	(36,166)	(40,652)	-	(320,076)	(670,552)
End of year	6,204,732	69,492,330	2,628,187	638,225	17,110,796	96,074,270	65,130,214
Representing:							
At cost	3,501,652	69,492,330	2,628,187	638,225	17,110,796	93,371,190	62,427,134
At valuation	2,703,080	-	-	-	-	2,703,080	2,703,080
	6,204,732	69,492,330	2,628,187	638,225	17,110,796	96,074,270	65,130,214
Accumulated depreciation and impairment losses:							
Beginning of year	392,358	11,092,757	576,571	204,891	-	12,266,577	7,093,815
Revaluations	-	-	-	-	-	-	12,610
Charge for the year	224,876	6,995,931	410,164	93,585	-	7,724,556	5,511,045
Impairment losses	-	449,266	-	-	19,345	468,611	-
Disposals	(8,148)	(60,955)	(24,154)	(40,652)	-	(133,909)	(350,893)
End of year	609,086	18,476,999	962,581	257,824	19,345	20,325,835	12,266,577
Net book value:							
End of year	5,595,646	51,015,331	1,665,606	380,401	17,091,451	75,748,435	52,863,637
Beginning of year	3,651,026	34,243,199	1,417,973	415,066	13,136,373	52,863,637	33,226,608

As of December 31, 2001, approximately RMB6,742 million (2000: RMB6,993 million) of property, plant and equipment at cost was pledged to banks as loan security.

As of December 31, 2001, prepayments for property, plant and equipment to be used in construction amounting to RMB2,272 million (2000: RMB1,376 million) have been included in construction-in-progress.

For the year ended December 31, 2001, interest of approximately RMB686 million (1999: RMB275 million; 2000: RMB253 million) was capitalized to construction-in-progress.

20. PROPERTY, PLANT AND EQUIPMENT, NET (CONT'D)

As of December 31, 2001, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB315 million and RMB60 million respectively (2000: RMB241 million and RMB34 million).

Land use rights and buildings of the Group as of March 31, 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to RMB8.8 million for the year ended December 31, 2001 (2000: RMB12.6 million). The revaluation deficit was charged to the statement of income for the year ended December 31, 2000.

As of December 31, 2001, the amount of land use rights and buildings which were revalued as of March 31, 2000 would have been included in the financial statements had the assets been carried at cost less accumulated depreciation was approximately RMB2,139 million (2000: 2,267 million).

As of December 31, 2001, net book value of telecommunications equipment held under finance leases amounted to RMB178,622,000 (2000: Nil).

In 2001, the economic performance of Paging Business was worse than originally expected. Updated analyses and forecasts were prepared by the Group to determine if there had been an impairment of assets. The test for impairment was conducted for the paging telecommunications business of each province, representing a cash-generating unit, after considering the significant decline in revenue and profitability in 2001. The impaired assets, including telecommunications equipment and the related goodwill of certain provinces were written down to their recoverable values determined based on their value in use. Value in use is determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the paging assets. In estimating the future net cash flows, the Group has made key assumptions and estimates on the appropriate discount rate adopted (8% per annum) and the period covered by the cash flow forecast, the gradual slow-down in the future loss of customers, the expected stability in average revenue per subscriber, the effects of incremental cash flows arising from new paging businesses and the adoption of cost reduction plans. These assumptions and estimations are made after considering the historical trends, the current market trends and the physical conditions of the related assets. Based on the above, the Group recorded impairment losses for property, plant and equipment amounting to approximately RMB468 million and for goodwill amounting to approximately RMB164 million for the year ended December 31, 2001.

In 2001, the Group also recognized loss on disposal of property, plant and equipment of approximately RMB54 million (1999: Nil; 2000: RMB278 million).

21. GOODWILL

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Cost	519,999	505,485
Less: Accumulated amortization	(224,037)	(298,298)
Less: Impairment losses	-	(163,900)
	295,962	43,287

Goodwill represents the excess of purchase consideration over the fair values of the separately identifiable assets acquired for (i) certain local Paging Businesses controlled by the PTA during the restructuring of Guoxin in 1998, amounting to RMB448 million and (ii) minority interests in the provincial subsidiaries of Guoxin after its establishment.

In 2000, Guoxin acquired the minority interests in 28 provincial and municipal subsidiaries. The total purchase consideration amounted to approximately RMB1,803 million. The minority owners' aggregate share of the fair value of net assets as of the effective dates of acquisition were approximately RMB1,779 million and goodwill arising from the acquisition of minority interests amounted to RMB24 million.

In 2001, Guoxin acquired the minority interests of 3.71% and 0.85% in Heilongjiang Guoxin and Sichuan Guoxin Telecommunications Co. Ltd. (“Sichuan Guoxin”), respectively. The total purchase consideration amounted to approximately RMB19.4 million. The minority owners’ aggregate share of the fair value of net assets as of the effective dates of acquisition were approximately RMB18.9 million and goodwill arising from the acquisition of minority interests was immaterial.

The amortization charge of goodwill for the year ended December 31, 2001 amounted to approximately RMB74,261,000 (1999: RMB80,476,000; 2000: RMB100,781,000).

The impairment provision in 2001 represented the write-down of goodwill relating to the Paging Businesses in certain provinces (See note 20).

22. DEFERRED EXPENDITURES

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Interconnection facilities	477,367	464,575
Long-term prepaid rental	374,566	599,424
Other	240,486	701,468
	1,092,419	1,765,467
Less: Accumulated amortization	(286,550)	(750,029)
	805,869	1,015,438

Amortization of deferred expenditures for the year ended December 31, 2001 amounted to approximately RMB463,479,000 (1999: RMB94,532,000; 2000: RMB109,879,000).

23. INVESTMENT SECURITIES

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Unlisted equity securities in the PRC, at cost	109,147	131,212
Less: Provision for impairment in value	(20,202)	(7,712)
	88,945	123,500

24. INVESTMENTS IN SUBSIDIARIES

The Company has direct or indirect interests in the following principal subsidiaries. All of these subsidiaries are privately-held limited companies except Unicom Guomai whose shares are listed on the Shanghai Stock Exchange.

As of December 31, 2001, the details of the Company's subsidiaries were as follows:

Name	Place and date of incorporation	Percentage of equity interest held		Issued and fully paid capital	Principal activities
		Direct	Indirect	RMB '000	
China Unicom Corporation Limited	The PRC, April 21, 2000	100.00%	-	6,502,490	Telecommunications operation
Guoxin Paging Corporation Ltd.	The PRC, September 17, 1998	-	100.00%	6,825,088	Investment holding
Anhui Guoxin Paging Co., Ltd.	The PRC, October 28, 1998	-	100.00%	263,150	Paging operation
Beijing Telecommunications Paging Co., Ltd.	The PRC, April 10, 1998	-	100.00%	133,661	Paging operation

24. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name	Place and date of incorporation	Percentage of equity interest held		Issued and fully paid capital	Principal activities
		Direct	Indirect	RMB '000	
Chongqing Guoxin Telecommunications Co., Ltd.	The PRC, September 21, 1998	-	100.00%	121,913	Paging operation
Guangdong Guoxin Telecommunications Co., Ltd.	The PRC, September 30, 1998	-	100.00%	1,473,802	Paging operation
Heilongjiang Guoxin Paging Co., Ltd. ("Heilongjiang Guoxin")	The PRC, November 10, 1998	-	95.10%	349,828	Paging operation
Liaoning Guoxin Paging Co., Ltd. ("Liaoning Guoxin")	The PRC, November 11, 1998	-	70.85%	372,000	Paging operation
Sichuan Guoxin Telecommunications Co., Ltd. ("Sichuan Guoxin")	The PRC, September 30, 1998	-	100.00%	386,628	Paging operation
Yunnan Guoxin Telecommunications Co., Ltd.	The PRC, September 28, 1998	-	100.00%	159,139	Paging operation
Unicom Guomai Communications Co., Ltd. ("Unicom Guomai")	The PRC, November 24, 1992	-	58.88%	364,883	Paging operation

As of December 31, 2001, Guoxin has already acquired all of the minority interests of 28 subsidiaries and part of the minority interests of Heilongjiang Guoxin and Liaoning Guoxin. Except for Heilongjiang Guoxin, Liaoning Guoxin and Unicom Guomai, the aforementioned 28 Paging Businesses have become wholly-owned subsidiaries of Guoxin. The legal status of 22 of these subsidiaries has been subsequently deregistered during 2001.

In 2001, the Company has contributed cash of RMB14,647,535,000 to China Unicom as additional investment.

25. INVESTMENT IN ASSOCIATED COMPANIES

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Cost	51,145	51,145
Share of net assets	833	(23,940)
	51,978	27,205
Less: Provision for impairment in value	(26,278)	(23,059)
	25,700	4,146

Full provision for impairment loss in respect of investments in certain associated companies was made in both 2000 and 2001 when the Group judged that the recoverable amount of these investments would be minimal based on the estimated discounted future net cash flows of the investment. In view of the persistent poor operating results of these associated companies, management concluded that the impairments were other than temporary.

As of December 31, 2001, details of investment in associated companies were as follows:

Name	Place and date of incorporation	Percentage of equity interest held		Issued and fully paid capital	Principal activities
		Direct	Indirect	RMB '000	
Beijing Zhongjie Mobile Telecommunications Co., Ltd.	The PRC, April 5, 1999	-	33.00%	10,000	Telecommunications technology
Jiangxi Guoxin Technology Co., Ltd.	The PRC, May 27, 1999	-	23.80%	583	Telecommunications technology
Jiangxi Telecommunication Co., Ltd.	The PRC, December 28, 1993	-	24.00%	7,750	Telecommunications technology
Shanghai Bilder Telecommunications and Construction Co., Ltd.	The PRC, April 17, 1997	-	40.00%	20,000	Telecommunications technology
Shenzhen Jiaxun Co., Ltd.	The PRC, January 12, 2000	-	45.00%	10,000	Telecommunications technology
Shanghai Tianhua Communications Co., Ltd.	The PRC, October 16, 1997	-	40.00%	5,000	Telecommunications technology
Shanghai Guomai Communications and Technology Development Co., Ltd.	The PRC, August 10, 1998	-	49.00%	1,000	Telecommunications technology
Shanghai Beiyan Labor Service Co., Ltd.	The PRC, January 12, 1999	-	48.00%	500	Telecommunications technology
Suzhou Huihong Precision Metal Co., Ltd.	The PRC, January 25, 1994	-	22.50%	13,245	Telecommunications technology
Chengdu Tongfa Champin Communications Co., Ltd.	The PRC, April 23, 1993	-	40.00%	41,590	Telecommunications technology
Sichuan Sutong Expressway Communications Co., Ltd.	The PRC, July 8, 1997	-	30.00%	36,667	Telecommunications technology

26. PAYABLES AND ACCRUED LIABILITIES

	Note	As of December 31,	
		2000	2001
		RMB '000	RMB '000
Payables to contractors and equipment suppliers		10,539,987	13,141,029
Accrued expenses		745,043	717,827
Payables to telecommunications products suppliers		65,270	124,928
Other	(i)	1,170,867	1,345,652
		12,521,167	15,329,436

Note:

(i) Other includes customer deposits, miscellaneous accruals for housing fund and other government surcharges.

As of December 31, 2001, approximately RMB67 million (2000: RMB231 million) of payables to contractors and equipment suppliers was denominated in US dollars (i.e. US$8 million (2000: US$28 million)).

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

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Within one year	12,521,167	13,916,953
Over one year	-	1,412,483
	12,521,167	15,329,436

27. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.19% to 7.72% per annum for 2001 (1999: 4.86% to 7.02% per annum; 2000: 4.52% to 7.72% per annum).

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

	Balance at year-end	Weighted average interest rate at year-end	Maximum amount outstanding during the year	Average amount outstanding during the year*	Weighted average interest rate during the year**
	RMB '000	per annum	RMB '000	RMB '000	per annum
December 31, 2000					
- secured	377,000				
- unsecured	7,356,817				
	7,733,817	5.80%	7,733,817	4,711,191	5.62%
December 31, 2001					
- secured	-				
- unsecured	7,089,000				
	7,089,000	5.80%	10,816,951	7,411,409	5.80%

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

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

As of December 31, 2000, short-term bank loans of approximately RMB356 million were secured by approximately RMB135 million of property, plant and equipment at cost and the service fee revenue to be generated by the Cellular Business of Anhui and Guandgong. In addition, short-term bank loans of approximately RMB20 million and approximately RMB1 million were guaranteed by a provincial PTA and other local enterprises.

As of December 31, 2001, short-term bank loans of approximately RMB200 million (2000: Nil) were guaranteed by Unicom Group.

28. LONG-TERM BANK LOANS

	Interest rate and final maturity	As of December 31, 2000 RMB '000	As of December 31, 2001 RMB '000
RMB denominated bank loans	Floating interest rate ranging from 5.46% to 7.65% (2000: 4.95% to 6.66%) per annum with maturity through 2007 (2000: maturity through 2007)		
- secured		13,383,940	17,247,009
- unsecured		14,534,284	19,933,362
		27,918,224	37,180,371
Less: Current portion		(766,875)	(843,603)
		27,151,349	36,336,768

During 2000, long-term bank loans of approximately RMB10,502 million previously borrowed by Unicom Group were restructured into long-term bank loans borrowed directly by China Unicom (see Note 33(b)).

The repayment schedules of the long-term bank loans as of December 31, 2000 and 2001 were as follows:

	As of December 31, 2000 RMB '000	As of December 31, 2001 RMB '000
Balances due:		
2001	766,875	-
2002	1,575,312	843,603
2003	11,758,691	9,339,561
2004	1,743,000	4,600,135
2005	11,027,622	16,336,839
2006	360,061	4,276,763
Thereafter	686,663	1,783,470
	27,918,224	37,180,371
Less: Portion classified as current liabilities	(766,875)	(843,603)
	27,151,349	36,336,768

As of December 31, 2001, long-term bank loans were secured by the following:

(i) approximately RMB6,098 million (2000: RMB1,481 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 RMB850 million of which was also guaranteed by Unicom Group;

(ii) approximately RMB1,149 million (2000: RMB1,903 million) of long-term bank loans were secured by the revenue streams and the related property, plant and equipment of the Liaoning GSM and Phases 4 and 5 of the Beijing GSM;

28. LONG-TERM BANK LOANS (CONT'D)

(iii) approximately RMB10,000 million (2000: RMB10,000 million) of long-term bank loans were secured by cash inflows generated from the operations;

(iv) approximately RMB3,403 million (2000 : Nil) of long-term bank loans were guaranteed by Unicom Group.

29. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analyzed as follows:

	As of December 31,	
	2000	**2001**
	RMB '000	**RMB '000**
Total minimum lease payments under finance leases repayable:		
- not later than one year	-	8,642
- later than one year and not later than five years	-	34,569
- later than five years	-	163,127
	-	206,338
Less: future finance charges	-	(97,430)
Present value of minimum obligations	-	108,908
Representing obligations under finance leases:		
- current liabilities	-	8,151
- non-current liabilities	-	100,757

	As of December 31,	
	2000	**2001**
	RMB '000	**RMB '000**
The present value of obligations under finance leases:		
- not later than one year	-	8,151
- later than one year and not later than five years	-	28,224
- later than five years	-	72,533
	-	108,908
Less: Amount due within one year included in current liabilities	-	(8,151)
	-	100,757

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

30. SHARE CAPITAL

	As of December 31, 2000	As of December 31, 2001
	RMB '000	RMB '000
Authorized:		
30,000,000,000 ordinary shares of HK$ 0.1 each	3,000,000	3,000,000

	As of December 31, 2000			As of December 31, 2001		
	Number of shares (‘000)	HK$’ 000	RMB equivalent RMB ‘000	Number of shares (‘000)	HK$’ 000	RMB equivalent RMB ‘000
Issued and fully paid:						
Unicom BVI	9,725,000	972,500	1,030,850	9,725,000	972,500	1,030,850
Public investors	2,827,996	282,799	300,521	2,827,996	282,799	300,521
	12,552,996	1,255,299	1,331,371	12,552,996	1,255,299	1,331,371

Pursuant to the resolution passed on April 21, 2000, 9,725,000,020 shares of HK$0.10 each were allotted and issued to Unicom BVI for the transfer of the entire interest in China Unicom to the Company.

Pursuant to the resolution passed on June 20, 2000, the Company completed its Global Offering as follows:

(i) issued an aggregate of 2,459,127,000 shares of HK$0.10 each including an offering of 122,956,000 shares at HK$15.42 per share on The Stock Exchange of Hong Kong Limited (“HKSE”) (excluding the brokerage fee and HKSE transaction levy) and an offering of 233,617,100 ADSs (each ADS represents 10 shares) at US$ 19.99 (HK$15.58) on the New York Stock Exchange Inc., on June 22, 2000 and June 21, 2000 respectively; and

(ii) issued 368,869,050 shares of HK$0.10 each at HK$15.58 per share by way of a placing among professional and institutional investors on July 3, 2000 upon the full exercise of an over-allotment option.

The listing proceeds of the aforementioned Global Offering of shares, net of direct listing expenses, amounted to approximately RMB45,275,152,000. The resulting share premium amounted to approximately RMB44,974,631,000.

31. SHARE OPTION SCHEME

On June 1, 2000, the Company adopted a share option scheme (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 below) 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 June 22, 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 period during which an option may be exercised commences from the date of grant of the options and will end by June 22, 2010.

On June 1, 2000, the Company also adopted a fixed award pre-global offering share option scheme ("Pre-Global Offering Share Option Scheme"), the principal terms of which are the same as the Share Option Scheme in all material aspects except that:

(i) 27,116,600 options were granted on June 22, 2000 to the senior management, including directors, and certain other employees, which represent, on their full exercise, 27,116,600 shares;

(ii) 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

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

No options have been exercised since the date of grant under the Share Option Scheme and Pre-Global Offering Share Option Scheme and up to the date when the Board of Directors approved the financial statements.

32. SHARE WARRANTS

On June 22, 2000, share warrants were granted by the Company to the CJVs or their designees as part of the compensation for termination of the CCF Arrangements (see Note 11). As of December 31, 2001, all share warrants were expired and no share warrants were exercised by these CJVs or their designees.

33. RELATED PARTY TRANSACTIONS

(a) Transactions with Unicom Group

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

		Year ended December 31,		
	Note	1999	2000	2001
		RMB ’000	RMB ’000	RMB ’000
Transactions with Unicom Group:				
Interconnection and roaming revenues	(i), (iii)	95,757	339,536	875,305
	(ii)			298,828
Interconnection and roaming charges	(iii)	23,309	131,315	
Rental charged for premises, equipment and facilities	(iv)	24,270	24,121	21,257
Revenue for leasing of transmission line capacity	(v)	-	168,556	216,113
Commission revenue for sales agency services	(vi)	-	259,981	14,560
Transactions with subsidiaries of Unicom Group:				
Leasing of satellite transmission capacity	(vii)	29,680	62,394	61,778
Purchase of telecom cards	(viii)	333,576	476,827	1,255,533
Commission expenses for sales agency services incurred for telecom cards	(ix)	-	5,033	2,616
Rental charges for leasing of transmission line	(x)	-	-	16,882
Agency fee incurred for procurement of telecommunications equipment	(xi)	70,170	54,421	124,451
Rental for the PRC corporate office	(xii)	-	10,131	10,131

Notes:

(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.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with Unicom Group (Cont'd)

(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 their respective internal costs of providing these services.

(iv) Prior to the establishment of China Unicom, the Group was provided with premises, equipment and facilities by Unicom Group. Rentals were paid based on the depreciation costs of the related premises, equipment and facilities. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement with Unicom Group to leases premises, equipment and facilities from Unicom Group. Rentals are based on the lower of depreciation costs and market rates.

(v) Following the Restructuring, 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 are based on tariffs stipulated by MII from time to time less a discount of up to 10%.

(vi) For 2001 and 2000, Guoxin acts as the sales agent of Unicom Group to sell telecommunications products (such as SIM cards and prepaid cards). In return, Guoxin receives agency commission from Unicom Group at fixed rates based on commission rates stipulated by Unicom Group applicable to third party sales agents.

(vii) Satellite transmission capacity leasing fees represent the amounts paid or payable to China United Telecommunications Satellite Communication Company Limited ("Unisat"), a subsidiary of Unicom Group, 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 Unisat.

(viii) Prior to the establishment of China Unicom, the Group purchased subscriber identity module cards, Internet protocol phone cards and prepaid rechargeable calling cards at fixed prices from Unicom Xingye Science and Technology Trade Co. ("Unicom Xingye"), a subsidiary of Unicom Group. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement with Unicom Group to purchase telecom 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.

(ix) For 2001 and 2000, Unicom International (HK) Limited, a subsidiary of Unicom Group, provided sales agency services such as selling of telecommunications cards to the Group. The commission expenses are charged based on market rates.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with Unicom Group (Cont'd)

(x) In 2001, the Group leased transmission line capacity from Unicom International (HK) Limited and China Unicom International Limited, both are subsidiaries of Unicom Group, in accordance with the relevant provision of the services agreement. Leased line expenses are charged based on market rates.

(xi) Prior to the establishment of China Unicom, the Group purchased certain foreign and domestic telecommunications equipment and materials through Unicom Import and Export Co., Ltd. ("Unicom I/E Co."), a subsidiary of Unicom Group, at an agency fee of 1% of the value of the equipment. Upon the establishment of China Unicom in 2000, China Unicom signed a service agreement with Unicom Group, in which Unicom Group agreed to provide equipment procurement services to China Unicom (through Unicom I/E Co.). 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.

(xii)Upon the establishment of China Unicom, Unicom Group signed a rental agreement with Unicom Xingye, under which Unicom Xingye leases office premises to China Unicom at its PRC corporate office. Monthly rental is calculated on the basis of US$ 20 per square meter.

(xiii)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 China Unicom, China Unicom and its affiliates are granted the right to use these trademarks on a royalty free basis for an initial period of five years, renewable at China Unicom's option.

(xiv)According to the Multiple Service Agreement (the "Agreement") signed between the Group and Unicom Paging Limited ("Unicom Paging, a subsidiary of Unicom Group") dated August 1, 2001, the Group and Unicom Paging agree to share the right to use the other party's logo and trademark in the paging business at no cost. In addition, the Agreement also specifies the basis of allocating common expenses incurred by each party for any shared resources and facilities. For the year ended December 31, 2001, management considered that the amount of common expenses involved was insignificant.

(b) Loans from Unicom Group

Loans of approximately RMB10,502 million as of December 31, 1999 were provided by Unicom Group to finance the operations and network construction of the Cellular Business and to finance the settlement payments for the terminations of the CCF Arrangements as described in Note 11. In order to provide these loans to the Cellular Business, Unicom Group borrowed from various banks at the interest rates ranging from 5.85% to 7.2% for 2000. Unicom Group allocated these bank loans to the Cellular Business based on the amount of funds actually utilized by the Cellular Business. The corresponding interest expenses were also charged to the Cellular Business based on the loan amounts allocated. For the year ended December 31, 2000, interest on loans from Unicom Group amounted to approximately RMB48,313,000. Upon the establishment of China Unicom in 2000, these loans were restructured into long-term loans borrowed directly by China Unicom.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Amounts due from and to related parties

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

(d) Leasing of CDMA network capacity

On November 22, 2001, China Unicom entered into a conditional lease agreement (the "Lease Agreement") with Unicom Group and Unicom New Horizon Mobile Telecommunications Company Limited ("Unicom New Horizon"), which is a subsidiary of Unicom Group. Pursuant to this Lease Agreement, Unicom Group and Unicom New Horizon agreed to lease the capacity of CDMA network being constructed by Unicom Group to China Unicom covering the 9 provinces of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei and the 3 municipals of Beijing, Shanghai and Tianjin.

Commencement of the Lease Agreement is conditional upon, among others, the following conditions having been fulfilled:

- Satisfactory testing, initial acceptance and delivery of Phase 1 of the CDMA network in accordance with the Lease Agreement;
- Unicom Group providing or procuring that China Unicom is provided with all spectrum and number resources required by China Unicom for the operation of Phase 1 of the CDMA network;
- Unicom Group and Unicom New Horizon having obtained all necessary government approvals to perform their respective obligations under the Lease Agreement;
- China Unicom having obtained approval from the MII to operate the CDMA network;
- The MII having approved the CDMA tariff plan;
- The passing of resolutions by the independent shareholders approving the Lease Agreement and the related connected transactions; and
- The Hong Kong Stock Exchange granting to the Company a waiver from strict compliance with the provisions of the Listing Rules relating to the Lease Agreement and the related connected transactions.

The term of the Lease Agreement is for an initial period of one year (the "Initial Lease Term"), commencing from the second business day following the fulfillment of the above conditions, among others, as set out in the Lease Agreement, or January 1, 2002, whichever is later.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Leasing of CDMA network capacity (Cont'd)

Other major terms of the Lease Agreement include the following:

(i) China Unicom has the exclusive right to lease and operate the CDMA network capacity in the aforementioned provinces/municipals from Unicom New Horizon;

(ii) The lease period is renewable for further one year terms at the option of China Unicom ("Additional Lease Term");

(iii) The lease fee will be calculated so as to enable Unicom New Horizon to recover its investment in constructing the CDMA network within 7 years, together with an internal rate of return of 8%;

(iv) China Unicom may not reduce the amount of capacity leased or committed to be leased by it during the Initial Lease Term. However, subject to providing not less than 180 days' prior written notice to or with the prior written consent of Unicom New Horizon, China Unicom may reduce the amount of capacity leased for any Additional Lease Term, provided that China Unicom must lease all capacity which it has requested or otherwise committed to lease for at least one year following the date of delivery or renewal of the lease of such capacity;

(v) China Unicom has the option to purchase the CDMA network (the "Purchase Option"), which may be exercised at any time during the Initial Lease Term or any Additional Lease Term of the lease and within 1 year thereafter;

(vi) The acquisition price under the Purchase Option shall be negotiated between Unicom New Horizon and China Unicom, based on the appraised value of the CDMA network determined in accordance with PRC laws and regulations and taking into account prevailing market conditions and other factors, provided that it will not exceed such price as would, added together with the lease fee payments made by China Unicom to Unicom New Horizon, enable Unicom New Horizon to recover its investment in the CDMA network, together with an internal rate of return on its investment of 8%; and

(vii) China Unicom may terminate the lease by not less than 180 days' prior written notice, with effect from the end of any Additional Lease Term.

Upon the fulfillment of all the conditions precedent to the commencement of the Lease Agreement, the Initial Lease Term commenced in January 2002.

34. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Amounts due to Unicom Group

The following table summarizes the activities between the Group and Unicom Group and the resulting balance due to Unicom Group:

	Year ended December 31,		
	1999	2000	2001
	RMB '000	RMB '000	RMB '000
Due (from) to Unicom Group, beginning of year	(6,755)	505,367	821,797
Interconnection and roaming revenues	(95,757)	(339,536)	(875,305)
Interconnection and roaming charges	23,309	131,315	298,828
CCF termination compensation financed by Unicom Group	529,843	-	-
Due to Unicom Group arising from network construction costs paid by Unicom Group for China Unicom	-	524,651	702,614
Repayment from Unicom Group	54,727	-	-
Due to Unicom Group, end of year	505,367	821,797	947,934

The outstanding amounts were unsecured, non-interest bearing and payable within one year. The average outstanding balances during 2001 were approximately RMB884,866,000 (1999: RMB280,533,000; 2000: RMB636,480,000).

34. TRANSACTIONS WITH CHINA TELECOM

The Group's telecommunications operations depend, in large part, on interconnection with China Telecom's public switched telephone network and on transmission lines leased from China Telecom.

(a) Transactions with China Telecom

The following is a summary of significant transactions with China Telecom:

		Year ended December 31,		
	Note	1999	2000	2001
		RMB '000	RMB '000	RMB '000
Interconnection revenue	(i)	112,221	298,596	461,133
Interconnection charges	(i)	669,781	1,145,913	1,375,852
Leased line charges	(ii)	1,026,730	1,008,077	668,386
Operating lease charges	(iii)	455,686	135,075	33,127
Agency fee on collection of revenue	(iv)	132,132	108,943	2,665
Social service fees	(v)	240,632	15,907	-

34. TRANSACTIONS WITH CHINA TELECOM (CONT'D)

(a) Transactions with China Telecom (Cont'd)

Notes:

(i) The interconnection revenue and charges mainly represent the amounts due from or to China Telecom for cellular telephone calls made between the Group's cellular networks and the public switched telephone network of China Telecom. The interconnection settlements are calculated in accordance with interconnection agreements reached between the Cellular Business and China Telecom on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII. Effective from October 1, 1999, under the new settlement standards, the Group no longer receives interconnection revenue for local calls made from the public switched telephone network to the Group's cellular subscribers.

(ii) Leased line charges are paid or payable to China Telecom by the Group for leasing China Telecom's transmission line. The charges are calculated at a fixed charge per line, depending on the number of lines being used.

(iii) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for the use of certain land and buildings at cost. Upon its establishment, Guoxin signed operating lease agreements with the PTAs for the use of certain land and buildings. The rentals are based on the market rates in the locality of the land and building.

(iv) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for sales agency services at cost. Upon its establishment, Guoxin signed agency agreements with the PTAs for sales agency services based on standard commission rates, being the prevailing market rates in the locality. Charges for collection services are calculated at a fixed percentage of fees collected from subscribers.

(v) Prior to the establishment of Guoxin, China Telecom charged the Paging Business for various social services, such as property management, meal and other social services, at cost. Upon its establishment, Guoxin signed social service agreements with China Telecom to provide such services at a fixed amount per employee annually. For 2001, such social service agreement was terminated and no more services have been rendered by China Telecom.

34. TRANSACTIONS WITH CHINA TELECOM (CONT'D)

(b) Amounts due from and to China Telecom

	As of December 31,	
	2000	2001
	RMB '000	RMB '000
Amounts due from China Telecom		
- revenue collected on behalf of Guoxin	485,434	258,317
- less: provision for doubtful debts	(109,188)	(58,857)
	376,246	199,460
Amounts due to China Telecom		
- payables for interconnection charges, leased lines, operating leases, social service fees, etc.	1,276,965	742,366
Long-term payable due to China Telecom		
- payables for obligations under finance leases:		
- current portion of obligations under finance leases	-	8,151
- obligations under finance leases	-	100,757
	-	108,908

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

Long-term payable for obligations under finance lease was related to the leasing of certain subsea transmission cables from China Telecom for a period of 25 years (Note 29).

35. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents and short-term bank deposits approximate their fair values because of the short maturity of those instruments. Cash and cash equivalents and short-term bank deposits denominated in foreign currencies were summarized as below, have been translated to RMB at the applicable rates quoted by the People's Bank of China.

	As of December 31,					
	2000			2001		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
	'000		RMB'000	'000		RMB'000
Cash and cash equivalents:						
- denominated in HK$	8,264,893	1.06	8,765,746	1,777,224	1.06	1,886,523
- denominated in US dollars	3,588,218	8.27	29,683,891	899,868	8.28	7,448,635
Sub-total			38,449,637			9,335,158
Short-term deposits:						
- denominated in HK$	1,647,445	1.06	1,747,280	5,941,644	1.06	6,307,055
- denominated in US dollars	730,926	8.27	6,046,655	2,222,981	8.28	18,400,664
Sub-total			7,793,935			24,707,719
Total			46,243,572			34,042,877

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 bank loans approximate their fair values based on borrowing rates currently available for bank loans with similar terms and maturities.

35. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

As of December 31, 2001, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

	Land use rights and buildings	Equipment	Total
	RMB '000	RMB '000	RMB '000
Authorized and contracted for	574,205	9,382,730	9,956,935
Authorized but not contracted for	89	78,587	78,676
Total	574,294	9,461,317	10,035,611

As of December 31, 2001, approximately RMB662 million (2000: RMB1,387 million) of capital commitment outstanding was denominated in US dollars (i.e. US$80 million (2000: US$167 million)).

36. CONTINGENCIES AND COMMITMENTS (CONT'D)

(b) Operating lease commitments

As of December 31, 2001, the Group had the following commitments under operating leases:

	Land use rights and buildings	Equipment	Total
	RMB '000	RMB '000	RMB '000
Leases expiring in:			
2002	231,064	1,723,897	1,954,961
2003	176,080	83,786	259,866
2004	166,038	49,891	215,929
2005	133,164	43,312	176,476
2006	120,639	30,570	151,209
Thereafter	481,206	278,490	759,696
Total	1,308,191	2,209,946	3,518,137

(c) Commitment of CDMA network

In accordance with the Lease Agreement among China Unicom, Unicom Group and Unicom New Horizon, China Unicom has agreed to lease the CDMA network capacity from Unicom New Horizon to China Unicom to provide CDMA cellular communication services in 9 provinces and 3 municipals (See Note 33(d)). The term of the lease is for an initial period of one year, starting from January 1, 2002. Based on forecast CDMA subscriber growth and the anticipated capacity of the lease, China Unicom estimates that the total lease fee payable during the Initial Lease Term will be approximately RMB1.47 billion.

As of December 31, 2001, the Group had no significant contingent liabilities.

37. EVENTS AFTER BALANCE SHEET DATE

On March 6, 2002, Unicom Xingye settled the amount due to the Group of approximately RMB464,439,000 as of December 31, 2001.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in accordance with new disclosure requirement under new HK SSAP.

39. CONCENTRATION OF RISK

Business risks

The Group conducts its operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities in the United States of America and Western European countries. These include risks associated with, among others, the political, economic and legal environments, influence of national authorities over tariff-setting and competition in the industry and spectrum availability.

New telecommunications law

In order to provide a uniform regulatory framework for the telecommunications industry in the PRC, the MII, pursuant to the direction of the PRC State Council, is currently preparing a draft telecommunications law of the PRC (the “Telecommunications Law”). The draft law, when formulated, will be submitted to the National People's Congress for review and adoption. It is unclear if and when the Telecommunications Law will be adopted, and the nature and scope of regulation envisaged by the Telecommunications Law are not fully known. There can be no assurance that the Telecommunications Law, if adopted, will not have a material adverse impact on the Group's business, financial condition and results of operations.

Competition

The Cellular Business of the Group currently faces intense competition from China Mobile Communication Corporation (“China Mobile”). In addition, the Paging Business and Long Distance, Data and Internet Business of the Group also faces intense competition from China Telecom and other operators in the PRC. China Mobile and China Telecom have competitive advantage over the Group in terms of geographic coverage, financial resources, and brand recognition. Intensified competition from China Mobile and China Telecom may adversely affect the business operations and financial conditions of the Group.

Technological changes

The telecommunications industry is characterized by rapid and significant technological changes. The current telecommunications technologies of the Group may become obsolete or subject to competition from new technologies, which could increase subscriber churn rate, and adversely affect the results of operations and prospects of the Group.

Spectrum availability

The Group's telecommunications network is limited by the amount of spectrum allocated by the Chinese government. There is no assurance that the Group will be granted additional spectrum on acceptable terms. Any levels of system congestion could result in subscriber dissatisfaction, decreased system usage and increased churn rate, and any material increase in spectrum fees could adversely affect the results of operations of the Group.

39. CONCENTRATION OF RISK (CONT'D)

Dependence on China Telecom's leased lines and interconnection arrangement

The Group's telecommunications businesses depend in large part upon access to China Telecom's public switched telephone network. Limitations on the public switched telephone network may lead to lower domestic, long-distance and international call completion rates for the Group's subscribers. There can be no assurance that the increasing usage of the Group's telecommunications services will not result in additional strain on the network switching capacity, or that the existing quality of the public switched telephone network will remain adequate.

In addition, the Group's operating revenues and costs are affected by the terms of its interconnection arrangement with China Telecom. Any material increase in costs associated with the interconnection could significantly and adversely affect the results of operations of the Group. There is no assurance that the terms of future interconnection arrangements will be commercially acceptable to the Group.

Adequate financing for future expansion

Substantial financing will be required by the Group to broaden the existing range of telecommunications services and develop new services. There is no assurance that sufficient financing will be available to the Group on acceptable terms. If adequate capital is not available, the business prospects of the Group will be adversely affected.

Credit risks

As of December 31, 2001, cash and cash equivalents and short-term bank deposits were mainly maintained with state-owned banks in the PRC and commercial banks in Hong Kong.

Foreign currency risk

The Group has foreign currency risk as certain of its payables to equipment suppliers are denominated in foreign currencies, principally US dollars. Fluctuations of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

Interest rate risk

The interest rates and terms of repayment of bank loans and other loans of the Group are disclosed in Notes 27 and 28.

40. SEGMENT INFORMATION

Operating segments represent components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Group organizes its business segments based on the various types of telecommunications services provided to customers in different provinces in the PRC. The major business segments operated by the Group are classified as below:

- Cellular Business --- the provision of cellular GSM telephone and related services;
- Paging Business --- the provision of paging and related services;
- Long Distance, Data and Internet Business --- the provision of domestic and international long distance telephony, data, Internet and other related services.

The operating segments are managed separately because each operating segment represents a strategic business unit that serves different markets. All the operating segments of the Group have been aggregated into the above reportable segments since they are expected to exhibit similar future economic characteristics to these reportable segments.

As the major telecommunications services of the Group operate autonomously under separate management teams at separate locations, most of the assets, liabilities, revenues and expenses are clearly identifiable to business segments. Allocation of centrally incurred costs amongst the different segments is not significant.

The Group's primary measure of segment income is based on segment income or loss before income tax.

40. SEGMENT INFORMATION (CONT'D)

(a) Business segments

	Year ended December 31, 2001						2000					
	Cellular Business	Paging Business	Long Distance, Data and Internet Business	Unallocated amounts	Elimination	Total	Cellular Business	Paging Business	Long Distance, Data and Internet Business	Unallocated amounts	Elimination	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue:												
Usage fee	14,937,448	-	2,120,997	-		17,058,445	8,212,332	-	470,526	-		8,682,858
Monthly fee	3,660,473	4,141,232	-	-		7,801,705	2,476,104	7,992,999	7,076	-		10,476,179
Connection fee	204,986	1,595	-	-		206,581	517,642	68,233	-	-		585,875
Interconnection revenue	1,262,267	-	724,624	-		1,986,891	753,591	-	293,745	-		1,047,336
Leased line rental	-	-	427,195	-		427,195	-	-	321,255	-		321,255
Other revenue	439,884	198,997	36,128	-		675,009	228,135	422,258	3,792	-		654,185
Total service revenue	20,505,058	4,341,824	3,308,944	-		28,155,826	12,187,804	8,483,490	1,096,394	-		21,767,688
Sales of telecommunications products	820,585	416,475	-	-		1,237,060	696,058	1,228,712	-	-		1,924,770
Total revenue from external customers	21,325,643	4,758,299	3,308,944	-		29,392,886	12,883,862	9,712,202	1,096,394	-		23,692,458
Intersegment revenue	651	66,734	1,169,929	-	(1,237,314)	-	-	180,701	455,722	-	(636,423)	-
Total revenues	21,326,294	4,825,033	4,478,873	-		29,392,886	12,883,862	9,892,903	1,552,116	-		23,692,458
Operating expenses:												
Leased lines	(533,455)	(307,348)	(430,532)	-	418,029	(853,306)	(580,596)	(759,025)	(274,224)	-	455,722	(1,158,123)
Interconnection charges	(2,195,396)	-	(634,345)	-	757,157	(2,072,584)	(1,268,574)	-	(110,891)	-		(1,379,465)
Depreciation and amortization	(5,556,317)	(1,754,973)	(947,372)	(3,634)		(8,262,296)	(3,605,529)	(1,827,535)	(300,887)	(364)		(5,734,315)
Personnel	(1,106,962)	(937,198)	(410,112)	(32,946)		(2,487,218)	(361,914)	(1,354,964)	(52,962)	-		(1,769,840)
Selling and marketing	(2,486,867)	(478,478)	(708,854)	-	61,309	(3,612,890)	(1,426,829)	(952,210)	(294,095)	-	180,701	(2,492,433)
General, administrative and other expenses	(3,046,235)	(1,760,688)	(644,082)	(48,811)	819	(5,498,997)	(1,772,753)	(1,809,425)	(146,706)	(14,179)		(3,743,063)
Cost of telecommunications products sold	(788,218)	(554,026)	-	-		(1,342,244)	(380,849)	(1,812,089)	-	-		(2,192,938)
Total operating expenses	(15,713,450)	(5,792,711)	(3,775,297)	(85,391)		(24,129,535)	(9,397,044)	(8,515,248)	(1,179,765)	(14,543)		(18,470,177)
Operating income (loss)	5,612,844	(967,678)	703,576	(85,391)		5,263,351	3,486,818	1,377,655	372,351	(14,543)		5,222,281
Financial income	31,544	23,493	3,078	2,038,857		2,096,972	100,944	52,320	636	1,594,905		1,748,805
Financial expense	(1,560,826)	(40,569)	(316,171)	-		(1,917,566)	(1,149,432)	-	(204,314)	-		(1,353,746)
Loss arising from terminations of CCF Arrangements	-	-	-	-		-	(1,184,534)	-	(9,304)	-		(1,193,838)
Other (expenses) income, net	(842)	(6,159)	(1,544)	28,376		19,831	9,493	49,736	-	-		59,229
Segment income (loss) before taxation and minority interests	4,082,720	(990,913)	388,939	1,981,842		5,462,588	1,263,289	1,479,711	159,369	1,580,362		4,482,731
Taxation						(1,041,137)						(1,104,969)
Income before minority interests						4,421,451						3,377,762
Minority interests						35,310						(143,711)
Net income						4,456,761						3,234,051
Total segment assets	65,320,115	11,306,153	17,057,714	34,220,910		127,904,892	42,393,650	14,748,230	8,763,617	46,923,329		112,828,826
Total segment liabilities	52,359,025	3,278,990	9,725,220	31,089		65,394,324	41,207,608	5,482,298	7,963,449	67,817		54,721,172
Other information:												
Provision (write-back) for doubtful debts	517,663	(14,510)	37,801	-		540,954	355,082	85,430	4,319	-		444,831
Equity investment for segment assets	-	4,146	-	-		4,146	-	25,700	-	-		25,700
Impairment loss recognized in the statement of income	-	632,511	-	-		632,511	-	-	-	-		-
Capital expenditures for segment assets [(1)]	20,777,990	549,338	7,332,060	2,594,071		31,253,459	17,277,859	2,178,287	5,713,435	10,655		25,180,236

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

40. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

	Year ended December 31, 1999					
	Cellular Business	Paging Business	Long Distance, Data and Internet Business	Unallocated amounts	Elimination	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue:						
Usage fee	3,188,850	-	79,159	-		3,268,009
Monthly fee	1,116,696	8,901,275	-	-		10,017,971
Connection fee	673,912	93,790	-	-		767,702
Interconnection revenue	207,978	-	-	-		207,978
Leased line rental	-	-	-	-		-
Other revenue	126,813	51,846	-	-		178,659
Total service revenue	5,314,249	9,046,911	79,159	-		14,440,319
Sales of telecommunications products	526,858	2,482,830	-	-		3,009,688
Total revenue from external customers	5,841,107	11,529,741	79,159	-		17,450,007
Intersegment revenue	-	-	-	-		-
Total revenues	5,841,107	11,529,741	79,159	-		17,450,007
Operating expenses:						
Leased lines	(91,367)	(1,004,419)	(3,465)	-		(1,099,251)
Interconnection charges	(693,090)	-	-	-		(693,090)
Depreciation and amortization	(1,892,060)	(1,798,046)	(913)	-		(3,691,019)
Personnel	(248,242)	(1,464,667)	(263)	-		(1,713,172)
Selling and marketing	(738,665)	(817,480)	(1,114)	-		(1,557,259)
General, administrative and other expenses	(806,420)	(1,745,309)	(34,673)	-		(2,586,402)
Cost of telecommunications products sold	(420,042)	(2,873,942)	-	-		(3,293,984)
Total operating expenses	(4,889,886)	(9,703,863)	(40,428)	-		(14,634,177)
Operating income	951,221	1,825,878	38,731	-		2,815,830
Financial income	12,475	93,120	-	-		105,595
Financial expense	(808,764)	-	(42)	-		(808,806)
Loss arising from terminations of CCF Arrangements	(224,270)	-	-	-		(224,270)
Other (expenses), net	(2,541)	(126,709)	(93)	-		(129,343)
Segment (loss) income before taxation and minority interests	(71,879)	1,792,289	38,596	-		1,759,006
Taxation						(555,659)
Income before minority interests						1,203,347
Minority interests						(364,200)
Net income						839,147
Total segment assets	25,831,798	16,952,637	2,581,630	-		45,366,065
Total segment liabilities	25,430,,873	7,017,705	1,848,859	-		34,297,437
Other information:						
Provision for doubtful debts	193,232	93,434	-	-		286,666
Equity investment for segment assets	-	-	-	-		-
Impairment loss recognized in the statement of income	-	-	-	-		-
Capital expenditures for segment assets	8,287,879	3,023,363	1,385,487	-		12,696,729

40. SEGMENT INFORMATION (CONT'D)

(b) Geographical segments

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

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment, intangible assets and other assets) are situated in the PRC, as the Group's principal activities are conducted in the PRC. For the year ended December 31, 2001, substantially all capital expenditures were incurred to acquire assets located in the PRC. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP

The accounting policies adopted by the Group to conform to HK GAAP differ in certain respects from the generally accepted accounting principles in the United States of America ("US GAAP"). The principal differences having a significant effect on the financial statements are set out below.

(a) Revenue and costs recognition

Under HK GAAP, upfront non-refundable revenue, such as connection fees, is recognized 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 recognized over the estimated customer service periods. The expected customer service period for the Cellular Business is estimated based on the expected stabilized churn rates. On this basis, the weighted average customer service period based on current estimation considering the prevailing market environment is approximately 6 years (1999 and 2000: 10 years). The effect of this change of estimate was to increase the net income by approximately RMB26 million for the year ended December 31, 2001.

(b) Employee housing schemes

Prior to the establishment of Guoxin and China Unicom, both China Telecom 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 recognized by the Group. Under US GAAP, the amount of such housing benefits was recorded as the Group's operating expenses over the estimated average service life of the participating employees. The corresponding amount was recorded as a capital contribution.

(c) 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 recognized unless they are expected to crystallize 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 realized, a valuation allowance is recorded.

(d) Revaluation of fixed assets

Under HK GAAP, revaluation surplus in relation to land use rights and buildings is recorded by the Group. Thereafter, depreciation is provided based on the revalued amounts. Under US GAAP, all fixed assets are stated at historical cost.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

(e) Impairment of long-lived assets

The carrying amount of fixed assets and goodwill under HK GAAP is 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 statement of income when circumstances and events that led to the write-down or write-off cease to exist.

Under US GAAP Statements of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"), long-lived assets including 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 recognized 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 adjusted for subsequent recoveries in value.

Impairment of goodwill is evaluated in connection with a business acquired. For the measurement of impairment of goodwill, the fair value is determined based on the estimated discounted future cash flows of the business acquired. When goodwill is identified with assets that are subject to impairment, the carrying amount of the identified goodwill is eliminated before any reduction of the carrying amounts of impaired long-lived assets.

As impairment of assets is evaluated using undiscounted net cash flow method under US GAAP, the impairment provisions for equipment and goodwill recognized under US GAAP were lower than those recognized under HK GAAP by RMB12,382,000 and RMB62,948,000, respectively for the year ended December 31, 2001. No such difference existed in prior years.

(f) Losses on debt extinguishment and share warrants

Under HK GAAP, the loss on CCF termination is accounted for as an operating loss which reduces the income from continuous operations of the Group. Under US GAAP, the amounts were classified as an extraordinary item in accordance with the requirement of SFAS Statement No. 4.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

(f) Losses on debt extinguishment and share warrants (Cont'd)

Under HK GAAP, the Company's share warrants granted to the CJVs or their designees as part of the compensation for terminations of CCF Arrangements did not result in an expense. The proceeds received from share warrants would be recognized as an increase to capital upon the exercise of the share warrants. Under US GAAP, an additional charge to the statement of income was recorded to account for the fair value of the share warrants granted at the completion of the Global Offering. The fair value of these share warrants as of the grant date, using the Black-Scholes option pricing method, was approximately RMB1,132 million. The major assumptions used include: no dividend yield, expected volatility of 50%, risk free interest rate of 6.54% and an expected life of one year.

(g) Share option scheme

Under HK GAAP, the proceeds received from the exercise of the share options granted under the fixed award Share Option Scheme and Pre-Global Offering Share Option Scheme are to be recognized as an increase to capital upon the exercise of the share options as stated in Note 31.

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 amortized 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 recognized in the reconciliation of net income to US GAAP. Required disclosures under Statement of Financial Accounting Standards No. 123 , "Accounting for Stock-Based Compensation"("SFAS 123") are provided below.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

(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 statement of income. The new cost basis is not changed for subsequent recoveries in value.

During the year ended December 31, 2001, the recovery in the value of investments in equity securities amounted to approximately RMB12,305,000 (1999 and 2000: Nil).

(i) Derivative instruments

In June 1998, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 stipulates accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at their fair values. Changes in fair values for derivatives are recorded in either current income or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and the type of the hedge transaction. SFAS 133, as revised by SFAS 137 and SFAS 138, is effective for fiscal years beginning after June 15, 2000. There were no material impacts of the adoption of these new standards on the Group's operating results and financial position.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

(j) Recently issued accounting standards

During the year, FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") and Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets" ("SFAS 144").

(a) SFAS 141 addresses financial accounting and reporting for business combinations and requires that the purchase method of accounting to be used for all business combinations after June 30, 2001. SFAS 141 is effective for fiscal years beginning after December 15, 2001 except for those goodwill and intangible assets acquired after June 30, 2001 or arising from combinations between mutual enterprises.

(b) Under SFAS 142, goodwill and certain other intangible assets will no longer be systematically amortized, but instead will be reviewed for impairment annually and written down and charged to results of operations when their carrying amounts exceed their estimated fair values. SFAS 142 is effective for fiscal years beginning after December 15, 2001 except for those goodwill and intangible assets acquired after June 30, 2001 or arising from combinations between mutual enterprises.

(c) SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

(d) SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The changes in SFAS 144 improve financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held or used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS 144 also resolved significant implementation issues related to impairment. SFAS 144 is effective for fiscal years beginning after December 15, 2001.

The Group has not completed its assessment of the effects of adopting SFAS 141, SFAS 142, SFAS 143 and SFAS 144.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

Effects on net income of significant differences between HK and US GAAP are summarized below:

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Net income under HK GAAP	839,147	3,234,051	4,456,761
Impact of US GAAP adjustments:			
- Deferral of upfront non-refundable revenue	(591,527)	(1,168,822)	(1,001,637)
- Amortization of upfront non-refundable revenue	93,236	252,520	455,839
- Deferral of direct incremental cost	500,844	1,071,222	934,713
- Amortization of direct incremental cost	(16,879)	(199,497)	(358,867)
- Employee housing benefits	(15,590)	(18,532)	(18,532)
- Reversal of depreciation for revalued fixed assets	-	12,610	7,485
- Reversal of revaluation deficit of fixed assets	-	28,000	-
- Differences in provision for impairment loss of equipment	-	-	12,382
- Differences in provision for impairment loss of goodwill	-	-	62,948
- Non-recognition of recovery of impairment provision of investment securities and associated companies	-	-	(17,948)
- Deferred tax impact arising from deferral and amortization of upfront non-refundable revenue and incremental costs	(159,708)	11,370	63,126
- Deferred tax impact arising from differences in provision for impairment loss of equipment and goodwill and non-recognition of recovery of impairment provision of investment securities and associated companies	-	-	(18,936)
- Additional charge relating to the grant of share warrants for the terminations of CCF Arrangements	-	(1,131,806)	-
- Recognition of deferred tax assets in relation to the loss carryforward from a subsidiary	21,272	23,582	-
- Valuation allowance	(21,272)	(23,582)	-
- Recognition of other deferred tax assets	88,128	90,213	145,098
Net income as restated (US GAAP)	737,651	2,181,329	4,722,432
Add back: Extraordinary item (loss arising from terminations of CCF Arrangements)			
- cash compensation	224,270	1,193,838	-
- share warrants compensation	-	1,131,806	-
- less: related tax impact	(74,009)	(393,967)	-
	150,261	1,931,677	-
Income from continuing operations before extraordinary item (US GAAP)	887,912	4,113,006	4,722,432

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

Effects on net income per share of significant differences between HK and US GAAP are summarized below:

	Year ended December 31,		
	1999	**2000**	**2001**
Basic and diluted net income per share after extraordinary item (RMB)	0.08	0.19	0.38
Basic and diluted net income per ADS after extraordinary item (RMB)	0.76	1.94	3.77
Basic and diluted net income per share before extraordinary item (RMB)	0.09	0.37	0.38
Basic and diluted net income per ADS before extraordinary item (RMB)	0.91	3.67	3.77

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

Effects on shareholders' equity of significant differences between HK and US GAAP are summarized below:

	Note	As of December 31, 2000 RMB '000	As of December 31, 2001 RMB '000
Shareholders' equity under HK GAAP		57,224,402	61,681,163
Impact of US GAAP adjustments:			
- Deferred upfront non-refundable revenue		(2,673,919)	(3,675,556)
- Accumulated amortization of upfront non-refundable revenue		439,705	895,544
- Deferred direct incremental cost		1,908,801	2,843,514
- Accumulated amortization of direct incremental cost		(222,630)	(581,497)
- Reversal of revaluation surplus of fixed assets:			
- Cost		(176,853)	(176,853)
- Accumulated depreciation		12,610	21,453
- Reversal of revaluation deficit of fixed assets:			
- Cost		28,000	28,000
- Accumulated depreciation		-	(1,358)
- Differences in provision for impairment loss of equipment		-	12,382
- Differences in provision for impairment loss of goodwill		-	62,948
- Non-recognition of recovery of impairment provision of investment securities and associated companies		-	(17,948)
- Deferred tax impact arising from deferred upfront non-refundable revenue, deferred direct incremental costs and the related accumulated amortization		(257,401)	(194,275)
- Deferred tax impact arising from differences in provision for impairment loss of equipment and goodwill, and non-recognition of recovery of impairment provision of investment securities and associated companies		-	(18,936)
- Recognition of deferred tax assets in relation to the loss carryforward from a subsidiary		107,299	107,299
- Valuation allowance	(i)	(107,299)	(107,299)
- Recognition of other deferred tax assets	(i)	228,061	373,159
Shareholders' equity as restated (US GAAP)		56,510,776	61,251,740

Note:

(i) A valuation allowance was recorded against the deferred tax assets in relation to the loss carryforward from a subsidiary prior to 2001 because it is highly uncertain as to whether sufficient future profit can be generated by the subsidiary to utilize the tax loss within the five-year carryforward period allowed under tax laws of the PRC at that time. The operating loss carryforward expire in various years through 2003, if not utilized. 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.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

The movement of significant provisions for the years ended December 31, 1999, 2000 and 2001 were summarized below:

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

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Balance, beginning of year	62,445	83,717	107,299
Provision for the year	21,272	23,582	-
Balance, end of year	83,717	107,299	107,299

(b) There was no other significant movement of provisions for the years ended December 31, 1999, 2000 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. (see Note 20 and 21).

Reclassifications

The reconciliation of net income and shareholders' equity from HK GAAP to US GAAP as presented above includes those items which have a net effect on net income or shareholders' equity. Other than the principal differences between HK GAAP and US GAAP explained above, there are no other major GAAP differences which would affect the classification of assets and liabilities or income and expenses.

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

Statement of Comprehensive Income

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 December 31, 1999, 2000 and 2001, apart from the net income and revaluation surplus of land use rights and buildings in 2000, there was no other comprehensive income which should be included in the statement of comprehensive income.

Statement of Cash Flows

The Group applies Hong Kong Statement of Standard Accounting Practice No. 15 "Cash Flow Statements" ("SSAP 15"). Its objectives and principles are similar to those set out in the United States Financial Accounting Standard Board Statement No. 95 "Statement of Cash Flows" ("FASB 95"). The principal differences between the standards relate to classification. Under SSAP 15, the Group presents its cash flows for (a) operating activities; (b) return on investments and servicing of finance; (c) taxation; (d) investing activities; and (e) financing activities. Cash flows from taxation and returns on investments and servicing of finance would be included as operating activities under FASB 95, with the exception of distributions, which under FASB 95 would be classified as financing activities. Summarized cash flow data by operating, investing and financing activities in accordance with FASB 95 are as follows:

	Year ended December 31,		
	1999	**2000**	**2001**
	RMB '000	**RMB '000**	**RMB '000**
Net cash inflows (outflows) from:			
Operating activities	5,474,186	9,343,867	11,077,875
Investing activities	(13,929,605)	(30,550,946)	(46,125,017)
Financing activities	10,121,030	59,921,403	8,743,467
Changes in cash and cash equivalents	1,665,611	38,714,324	(26,303,675)
Cash and cash equivalents, beginning of year	4,336,750	6,002,361	44,716,685
Cash and cash equivalents, end of year	6,002,361	44,716,685	18,413,010

41. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONT'D)

Share option scheme

As disclosed in Note 31, information relating to the share options outstanding under the Pre-Global Offering Share Option Scheme and Share Option Scheme as of December 31, 2000 and 2001 is as follows:

	Year ended December 31,			
	2000		2001	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
		HK$		HK$
Outstanding, beginning of year	-	-	27,116,600	15.42
Granted during the year	27,116,600	15.42	6,724,000	15.42
Outstanding, end of year	27,116,600	15.42	33,840,600	15.42

As of December 31, 2001, 6,724,000 share options (2000: Nil) were exercisable and the weighted average exercise price was HK$15.42. Also, as of December 31, 2001, weighted average remaining contractual life of the options outstanding were approximately 8.5 years (2000: 9.5 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 using the Black-Scholes option pricing method with the assumptions as follows:

	Year ended December 31,	
	2000	2001
Estimated fair value (in HK dollars)	8.14	4.90
Risk free interest rate	6%	6%
Expected life (in years)	5	8
Expected dividend yield	0%	0%
Volatility	54%	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 net income per share on a pro forma basis for the years ended December 31, 2000 and 2001 would have been as follows:

	Year ended December 31,	
	2000	2001
Net income:		
As reported (RMB'000)	2,181,319	4,722,432
Pro forma (RMB'000)	2,121,670	4,568,479
Basic and net income per share:		
As reported (RMB)	0.19	0.38
Pro forma (RMB)	0.19	0.36
Basic and diluted net income per ADS:		
As reported (RMB)	1.94	3.77
Pro forma (RMB)	1.89	3.64