



# CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability)

## 2003 ANNUAL RESULTS ANNOUNCEMENT

### Financial Highlights

- Operating revenue of RMB 67.64 billion, up by 66.7%
- EBITDA of RMB 24.90 billion, up by 34.0%
- Net profit of RMB 4.22 billion, down by 8.3% (If impairment loss and assets write-off of the Paging Business and the loss on the sale of Guoxin Paging totalling RMB1.22 billion were excluded, net profit of the Company would be RMB 5.08 billion, up by 10.5% from that in 2002)
- Number of cellular subscribers increased to 80.833 million, up by 35.4%

- Unaudited combined Pro Forma operating revenue reached RMB72.33 billion, up 40.3%
- Unaudited combined Pro Forma EBITDA reached RMB27.20 billion, up 13.5%
- Unaudited combined Pro Forma net profit reached RMB5.77 billion, up 6.0%

Note: Unaudited combined pro forma information is prepared on the assumption that (1) the acquisition by the Company of the cellular assets and businesses in 9 provinces, municipalities and autonomous regions including Jilin in 2002, (2) the acquisition by the Company of the cellular assets and businesses in 9 provinces and autonomous regions including Shanxi in 2003 and (3) the sale by the Company of Guoxin Paging in 2003 had all been completed on 1 January 2002.

### CHAIRMAN'S STATEMENT

Since its listing in June 2000, the development of the Company has progressed by leaps and bounds, with its integrated capabilities strengthening significantly. I felt deeply honored to be appointed as the new Chairman and Chief Executive Officer of the Company in August 2003 as it reflected the trust of the shareholders and fellow directors in me. With the numerous new challenges faced by the Company in its development, I found myself charged with great responsibilities.

During the past year, the Company achieved encouraging operating results through the joint efforts of the Board of Directors, the management team and all members of staff.

For the year ended 31 December 2003, operating revenue of the Company was RMB 67.64 billion, representing an increase of 66.7% from 2002. EBITDA for the year rose 34.0% to RMB 24.90 billion. Operating profit in 2003 rose 16.3% to RMB 8.31 billion. Net profit in 2003 fell 8.3% to RMB 4.22 billion. Earnings per share decreased by RMB 0.03 from RMB 0.366 in 2002 to RMB 0.336 in 2003. Without taking account of RMB 0.56 billion impairment loss and assets write-off of the Paging Business and RMB 0.66 billion loss on sale of Guoxin Paging, net profit of the Company was RMB 5.08 billion, up 10.5% from 2002.

The Board of Directors recommended the payment of final dividend for 2003 at RMB 0.10 per share. Subject to the approval of the recommendation for dividend payment by the general meeting, the Company will pay out dividends on or before 5 June 2004.

### REVIEW FOR 2003

In accordance with the operating principle of "integrated development with our focus on the cellular business; coordinated efforts in developing the different operations of the two networks; priority on efficiency and profitability to increase our scale and strength", the Company overcame the adverse effect of SARS on the Company's operation and achieved rapid growth in its core business. As at the end of 2003, the Company has a total of 80.833 million cellular subscribers, an increase of 35.4% from the end of 2002. Of the total cellular subscribers, CDMA cellular subscribers reached 16.910 million, an increase of 170.8% from the end of 2002. In terms of cellular subscribers, the Company has become the third largest telecommunications operator in the world.

### Significant improvement in the operation of CDMA business, whilst the GSM business continued to grow

The rapid growth in the CDMA and GSM businesses continued in 2003. Revenue from the cellular business for the year reached RMB 59.75 billion, up 88.1% from 2002. Of the total cellular revenue, revenue from the GSM business was RMB 41.17 billion, an increase of 46.5% from 2002. Operating profit for the segment rose 14.2% to RMB 8.72 billion. Revenue from the CDMA business was RMB 18.58 billion, an increase of 409.3% from 2002. Operating loss for the segment decreased from RMB 0.99 billion in 2002 to RMB 0.29 billion in 2003.

In March 2003, the CDMA network was upgraded from CDMA95A to CDMA1X, following which network coverage and voice quality improved significantly. Furthermore, the Company transformed its CDMA business model mainly by gradually reducing handset subsidies and encouraging subscribers to purchase their own handsets. By leveraging on the technical superiority of high speed data transmission provided by the CDMA1X network and the launch of "U-Max" value-added data services, the Company successfully satisfied various demands from corporate subscribers and young subscribers and enhanced its brand image. The Company launched the "Green Tornado" marketing campaign in full in July 2003, which stimulated rapid growth in the number of subscribers. Through the implementation of innovative marketing and sales strategies, the net addition of CDMA subscribers for the year reached 10.665 million. The CDMA business started to record profit in the third quarter.

Along with the rapid growth of the CDMA business, the Company strengthened its development of the GSM business. Through the exploration of network potential, the optimization of network and the further enhancement of network quality and service standards, the steady development of our GSM business has been sustained. The net addition of GSM subscribers for the year reached 10.458 million.

During the past year, the increase in cellular revenue, in particular, revenue from the CDMA business, became a major source of revenue growth of the Company.

### Rapid growth in long distance business and diversification in data and Internet businesses

The operation standard of the Company's long distance, data and Internet businesses has risen steadily. Customer service has been further improved and new progress has been achieved in the interconnection with other operators. As the interconnections and domestic long distance telephone services grew rapidly, the total minutes of outgoing calls for the year reached 19.83 billion minutes, an increase of 49.7% from that in 2002, whilst our market share increased from 11.6% in 2002 to 14% in 2003. The Company is committed to building "165", "Ruyi mailbox", "UNI-VIDEO" and "Internet Plaza" as well-known brands through proactive sales and marketing activities. The net additions of subscribers to Internet and "Ruyi mailbox" services for the year were 5.140 million and 6.241 million respectively.

### New horizons in business expansion and technology development

During the past year, the Company launched "U-Max" brand for its wireless data service, as well as other sub-brands for its various services. The successive launch of U-mail, U-Info, U-Net, U-Magic and U-Map has brought unprecedented experience of cellular communication to its subscribers, which facilitated the rapid development of the CDMA wireless data service.

In order to allow the GSM and CDMA networks to complement each other with their respective advantages, the Company proactively organized and conducted research and development programs on the implementation of the GSM-CDMA dual mode system and successfully completed the technical testing on the system in November 2003. The GSM-CDMA dual mode system is the first of its kind developed in the global cellular communication industry. The technology allows GSM subscribers to use the services provided by the CDMA network and vice versa, and effectively facilitates the coordinated development of both GSM and CDMA businesses.

### The achievement of positive free cash flow and further improvement in overall financial status

The Company's free cash flow (net cash inflow from operating activities — capital expenditure) improved significantly from an outflow of RMB 5.89 billion in 2002 to an inflow of RMB 2.81 billion in 2003. Early last year, the Company proposed the achievement of positive free cash flow as a target for budgetary control. Through the preparation of reasonable budgetary plans, control of capital investment was tightened. The weighting of operating results in our performance appraisal was increased, so that management of the Company placed more emphasis on operating efficiency. Operating and management expenses were controlled through the adoption of various measures to strengthen cost management. The Company further capitalized on the low interest rate environment prevailing in the international financial market by obtaining a syndicated loan for the first time. The fund-raising effort was well received by various international financial institutions and the Company successfully borrowed at very competitive interest rates. The proceeds were all applied in the construction of network infrastructure projects and in the improvement of the operation of the Company. Finance costs of the Company were thus reduced and debt structure improved. The achievement of positive free cash flow during the year signified a new era for the development of the Company.

### Acquisition of cellular businesses in 9 provinces including Shanxi and sale of Guoxin Paging

On 31 December 2003, the Company completed the acquisition of cellular businesses in 9 provinces and autonomous regions including Shanxi (the "Acquired Businesses") from the sale of Guoxin Paging to Unicom Group. The operating performance of the Acquired Businesses for the year was satisfactory. For the year ended 31 December 2003, the operating revenue of the Acquired Businesses was RMB 8.14 billion, representing an increase of 53.0% from 2002. The Acquired Businesses had a net loss of RMB 0.12 billion in 2002 but achieved a turnaround with a net profit of RMB 0.35 billion in 2003.

Through the acquisition of the Acquired Businesses, the Company has expanded its service area and subscriber base. The service area of the Company has been expanded to cover 30 provinces, municipalities and autonomous regions in the PRC (i.e. the whole of the PRC except Guizhou). This in turn laid a solid foundation for the rapid development of the Company's cellular communication businesses. Through the sale of Guoxin Paging to Unicom Group, the financial condition of the Company improved. The acquisition of the Acquired Businesses and the sale of Guoxin Paging for cash lifted earnings per share and enhanced shareholder value. The success of the acquisition and the sale further strengthened the competitiveness of the Company in the market.

Upon the completion of the acquisition of the Acquired Businesses and the sale of Guoxin Paging, as of 31 December 2003, the Company had 91.515 million cellular subscribers in 30 provinces, municipalities and autonomous regions. Of such cellular subscribers, the number of CDMA cellular subscribers reached 18.946 million. If the acquisition of the Acquired Businesses had taken place on 1 January 2003, then on a pro forma basis, the operating revenue of the Company for the year would have been RMB 72.33 billion, an increase of 40.3% from 2002, operating profit would have increased by 6.5% to RMB 10.43 billion and net profit would have risen by 6.0% to RMB 5.77 billion.

### Continuous perfection of corporate governance

In accordance with the regulatory requirements imposed by securities administration authorities in Hong Kong and New York, the Company continued to perfect its corporate governance and information disclosure. Disclosure of operation data on a monthly basis and financial figures on a quarterly basis was made, which enhanced the transparency of the Company's business operation. An independent director was added to the Company's Board of Directors to keep the Company's operation in line with the interests of public shareholders. The Company's Board of Directors has set up an Audit Committee and a Remuneration Committee, the Chairman of both of which is required to be an independent non-executive director. The independent non-executive directors played a very important role in the Company's financial audit and the determination of remuneration for the senior executives of the Company. The Company also formulated and implemented the "Disclosure Controls and Procedures" so as to ensure the accuracy and reliability of information disclosed to the public by the Company.

### Developing corporate culture

In 2003, the Company summarized and concluded a set of values and beliefs embedded in our corporate culture. Corporate culture is comprised of the common values and model of behavior shared by all members of staff of an enterprise. We consider that the development of a corporate culture unique to China Unicom has practical and lasting significance because it preserves the unity of spirit of the Company's staff as a whole and strengthens the sense of belonging in the Company. During the past year, we carefully reviewed the history of the Company's development and drew precious lessons from experience. "Competitiveness, innovation, passion and integrity" represent the core ethos of our corporate culture. An "Outline on the corporate culture system of China Unicom" has been prepared accordingly.

### Commitment to corporate social responsibility

The success of the Company is built upon its commitment to its corporate social responsibility. During the outbreak of SARS in the first half of 2003, the Company actively made donations to various charitable initiatives in support of the nationwide battle against SARS. Staff from different branches in China participated in various charitable social activities such as donating to "Hope Primary School" and the coordination of volunteer services. Through the participation in such charitable activities, the Company aimed to fulfill its obligation to the society as a corporate citizen and the social reputation of the Company was further enhanced. At the same time, the Company's staff has become more caring.

### PROSPECTS

Looking forward, we expect the economy of the PRC to continue to sustain its rapid growth in 2004. Demand in the Chinese telecommunication market remains strong, which will provide ample space for the Company's development. We believe that following the expected improvement of the regulatory and market environment in the telecommunication industry in the PRC, the condition of interconnection will further improve and will provide a better external environment for the Company's participation in market competition. However, the Company is facing greater challenges as competition in the market becomes increasingly intense.

We will fully capitalize on the unique features of GSM and CDMA and coordinate the development of the two networks in an orderly manner. In accordance with the market positioning of "enterprise, infotainment, health-conscious and trendy" for the CDMA business, we will leverage the technological superiority of its "U-Max" data business to gain a competitive edge in the market, and expand the use of applications for the data business. In accordance with the market positioning of the GSM business as "price-sensitive and mass market", we will continue to develop new services, strengthen client liaison activities, and maintain stability in operating revenue and profit for the GSM business.

The Company will proactively prepare for the launch of the GSM-CDMA dual-mode system when appropriate. The launch of the GSM-CDMA dual-mode system and the "Worldwind" dual-mode handsets will bring a greater number of new applications to cellular subscribers that will create new user value. The use of the "Worldwind" dual-mode handsets will reduce roaming services on a global basis. In addition, the launch of dual-mode handsets will bring forth new profit growth for the Company's cellular communication business.

Long distance, data and Internet businesses will fully leverage on the unified platform for the development of telecommunication businesses such as "UNI-VIDEO" video conference and video phone services, broadband Internet and "Ruyi mailbox". Expansion in the scale of the market, increase in revenue and adequate use on underutilized cellular network resources, as well as the reduction of customer acquisition costs will in turn enhance the return of investment in the network.

The Company will also proactively promote the construction of Enterprise Informationization System (UNI-IT). Progress on the implementation of Enterprise Resources Planning System (ERP) will be accelerated. The construction of Management Supporting System (MSS) and Customer Relations Management System (CRM) will be conducted in a more rapid manner.

Whilst acquiring customers, the Company will seek to understand the requirement of its customers through customer segmentation and provide them with more differentiated services. With the competitive edge of the CDMA1X technology and operation becoming more apparent, the Company will continue to initiate innovative services and build up a service infrastructure with leading technology and operation within one to two years.

Notwithstanding the challenges lying ahead, we are confident in overcoming these difficulties and in progressing vigorously. I am convinced that the Company's management together with all members of staff will remain keen to advance ourselves and perform with innovativeness. We will continue to create new value for shareholders in 2004 upon the success and hard work laid down in the previous year.

On behalf of the Board of Directors, I would like to take this opportunity to thank Mr. Yang Xianzu once again sincerely for his outstanding contribution to the Company during his term of office as the Chairman and Chief Executive Officer. I would also like to sincerely thank Mr. Shi Cuming, our former Executive Director and Executive Vice President, and Mr. Ge Lei, our former Non-Executive Director, both of whom resigned in February 2004, for their contribution to the Company during their respective terms of office.

Lastly, on behalf of the Board of Directors, I would like to express my gratitude to our shareholders and to the community for their interest in and support for the Company. I would also like to thank the management and all members of staff for their hard work.

Wang Jianzhou  
Chairman & Chief Executive Officer  
Hong Kong, 25 March 2004

### GROUP RESULTS

China Unicom Limited ("the Company") is pleased to announce the consolidated results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2003 extracted from the audited consolidated financial statements of the Group as set out in the Company's 2003 annual report.

### CONSOLIDATED INCOME STATEMENT

|  | Note    | 2003         | 2002         |
|--|---------|--------------|--------------|
|  |         | RMB '000     | RMB '000     |
| <b>For the year ended 31 December 2003</b> |         |              |              |
| Operating Revenue (Turnover):              |         |              |              |
| GSM Business                               | 2, 6, 7 | 40,303,611   | 27,387,925   |
| CDMA Business                              | 2, 6, 7 | 16,623,518   | 3,225,347    |
| Data and Internet Business                 | 2, 6, 7 | 3,437,083    | 2,793,039    |
| Long Distance Business                     | 2, 6, 7 | 2,273,148    | 2,765,723    |
| Paging Business                            | 2, 6, 7 | 1,403,053    | 2,161,188    |
| Total revenue                              |         | 64,040,413   | 38,333,222   |
| Sales of telecommunications products       | 2, 6, 7 | 3,595,912    | 2,243,303    |
| Total operating revenue                    | 2, 7    | 67,636,325   | 40,576,525   |
| Operating expenses:                        |         |              |              |
| Leased lines and network capacities        | 6       | (4,320,382)  | (1,583,255)  |
| Interconnection charges                    | 6       | (5,920,793)  | (3,229,640)  |
| Depreciation and amortisation              | 6       | (16,385,293) | (11,255,724) |
| Personnel                                  | 6       | (4,574,546)  | (3,335,218)  |
| Selling and marketing                      | 6       | (15,156,835) | (5,980,948)  |
| General, administrative and other expenses | 6       | (9,112,385)  | (5,631,850)  |
| Cost of telecommunications products sold   | 6       | (3,652,045)  | (2,236,206)  |
| Total operating expenses                   |         | (59,122,279) | (33,252,841) |
| Operating profit                           |         | 8,514,046    | 7,323,684    |
| Loss on sale of Guoxin Paging              |         | (663,279)    | —            |
|  |         | 7,850,767    | 7,323,684    |
| Interest income                            |         | 173,033      | 470,282      |
| Finance costs                              |         | (1,936,022)  | (1,474,441)  |
| Other income (expense), net                |         | 8,071        | (16,359)     |
| Profit before taxation                     |         | 6,095,849    | 6,303,166    |
| Taxation                                   | 1, 3    | (1,888,381)  | (1,720,205)  |
| Profit after taxation                      |         | 4,207,468    | 4,582,961    |
| Minority interests                         |         | 9,629        | 15,252       |
| Profit attributable to shareholders        |         | 4,217,097    | 4,598,213    |
| Proposed final dividend                    | 4       | 1,255,317    | 1,255,300    |
| Dividend paid                              | 4       | 1,255,300    | —            |
| Basic earnings per share (RMB)             | 5       | 0.336        | 0.366        |
| Diluted earnings per share (RMB)           | 5       | 0.336        | 0.366        |

### CONSOLIDATED BALANCE SHEET

|   | Note | 2003                | 2002                |
|---|------|---------------------|---------------------|
|   |      | RMB '000            | RMB '000            |
| <b>As of 31 December 2003</b>                       |      |                     |                     |
| <b>Non-current assets:</b>                          |      |                     |                     |
| Property, plant and equipment, net                  |      | 118,104,848         | 107,486,629         |
| Goodwill  | 1    | 3,315,468           | 2,285,771           |
| Other assets  |      | 5,849,430           | 7,018,223           |
| Deferred tax assets                                 |      | 324,900             | 826,568             |
| Investment securities                               |      | —                   | 105,648             |
| Investment in associated companies                  |      | —                   | 3,814               |
| Total non-current assets                            |      | 127,594,646         | 117,726,653         |
| <b>Current assets:</b>                              |      |                     |                     |
| Current portion of deferred tax assets              | 1    | 873,849             | 988,666             |
| Amounts due from related parties                    |      | 263,414             | 1,137,847           |
| Amounts due from domestic carriers                  |      | 184,613             | 211,462             |
| Prepayments and other current assets                |      | 3,147,777           | 2,573,764           |
| Inventories   |      | 2,169,354           | 3,229,903           |
| Accounts receivable, net                            |      | 5,471,547           | 4,327,268           |
| Trading securities                                  |      | —                   | 173,939             |
| Short-term bank deposits                            |      | 912,794             | 4,825,205           |
| Bank balances and cash                              |      | 9,219,936           | 14,433,498          |
| Total current assets                                |      | 22,243,284          | 31,901,552          |
| <b>Current liabilities:</b>                         |      |                     |                     |
| Dividend payable                                    |      | —                   | 8,448               |
| Payables and accrued liabilities                    |      | 17,098,420          | 19,811,961          |
| Amounts due to Unicom Group                         |      | 432,047             | 562,633             |
| Amounts due to related parties                      |      | 108,891             | 409,663             |
| Amounts due to domestic carriers                    |      | 778,841             | 1,123,580           |
| Current portion of obligations under finance leases |      | 25,435              | 16,793              |
| Current portion of long-term bank loans             |      | 7,197,877           | 5,459,505           |
| Taxes payable                                       |      | 623,857             | 1,106,006           |
| Advances from customers                             |      | 6,666,086           | 6,240,225           |
| Short-term loans from Unicom Group                  |      | —                   | 724,127             |
| Short-term bank loans                               |      | 10,975,199          | 9,146,500           |
| Total current liabilities                           |      | 43,906,653          | 44,609,441          |
| <b>Net current liabilities</b>                      |      | <b>(21,663,369)</b> | <b>(12,707,889)</b> |
| <b>Total assets less current liabilities</b>        |      | <b>105,931,277</b>  | <b>105,018,764</b>  |
|   | Note | 2003                | 2002                |
|   |      | RMB '000            | RMB '000            |
| <b>Financed by:</b>                                 |      |                     |                     |
| <b>Shareholders' equity:</b>                        |      |                     |                     |
| Share capital                                       |      | 1,331,390           | 1,331,371           |
| Share premium                                       |      | 52,483,266          | 52,482,127          |
| Reserves  |      | 1,719,331           | 1,300,065           |
| Retained profits:                                   |      |                     |                     |
| Proposed final dividend                             | 4    | 1,255,317           | 1,255,300           |
| Others  | 1    | 12,826,186          | 10,283,672          |
| Shareholders' equity                                |      | 69,615,490          | 66,652,535          |
| <b>Minority interests</b>                           |      | <b>—</b>            | <b>566,257</b>      |
| <b>Non-current liabilities:</b>                     |      |                     |                     |
| Long-term bank loans                                |      | 36,212,791          | 37,686,162          |
| Obligations under finance leases                    |      | 99,719              | 101,302             |
| Other long-term liabilities                         |      | 3,277               | 12,508              |
| Total non-current liabilities                       |      | 36,315,787          | 37,799,972          |
|   | Note | 2003                | 2002                |
|   |      | RMB '000            | RMB '000            |
| <b>CONSOLIDATED CASH FLOW STATEMENT</b>             |      |                     |                     |
| <b>For the year ended 31 December 2003</b>          |      |                     |                     |
| Net cash inflow from operations                     | (a)  | 26,449,770          | 15,675,105          |
| Interest received                                   |      | 204,025             | 599,506             |
| Interest paid                                       |      | (2,540,513)         | (1,868,208)         |
| Dividend received                                   |      | 2,573               | 24,978              |
| Dividend paid to minority owners of subsidiaries    |      | (4,689)             | (31,902)            |
| PRC income tax paid                                 |      | (1,545,907)         | (1,345,201)         |
| Net cash inflow from operating activities           |      | 22,565,259          | 13,054,278          |
| <b>Investing activities</b>                         |      |                     |                     |
| Purchase of property, plant and equipment           |      | (21,184,245)        | (21,152,102)        |
| Sale of property, plant and equipment               |      | 94,804              | 24,552              |
| Purchase of minority interests                      |      | —                   | (257,337)           |
| Decrease in short-term bank deposits                |      | 3,832,411           | 20,096,738          |

|  | Note | 2003         | 2002         |
|--|------|--------------|--------------|
|  |      | RMB '000     | RMB '000     |
| Purchase of Unicom New Century, net of cash acquired     |      | —            | (3,692,687)  |
| Payment of direct acquisition cost of Unicom New Century |      | (59,767)     | —            |
| Purchase of Unicom New World, net of cash acquired       | (b)  | (2,326,449)  | —            |
| Purchase of trading securities                           |      | (87,956)     | (14,557)     |
| Sale of trading securities                               |      | 118,575      | 18,865       |
| Purchase of investment in associated companies           |      | (10,062)     | (2,105)      |
| Sale of investment in associated companies               |      | 853          | 4,241        |
| Sale of investment securities                            |      | 19,753       | 35,300       |
| Sale of Guoxin Paging, net of cash disposed              | (c)  | 1,259,159    | —            |
| Purchase of other assets                                 |      | (708,379)    | (226,947)    |
| Net cash outflow from investing activities               |      | (19,051,303) | (5,166,039)  |
| <b>Financing activities</b>                              |      |              |              |
| Proceeds from exercise of share options                  |      | 1,158        | —            |
| Decrease of payables to Unicom Group                     |      | (724,127)    | (1,393,434)  |
| Proceeds from short-term bank loans                      |      | 10,901,425   | 9,623,438    |
| Proceeds from long-term bank loans                       |      | 11,075,836   | 7,757,005    |
| Repayment of short-term bank loans                       |      | (10,278,727) | (7,928,938)  |
| Repayment of long-term bank loans                        |      | (18,497,783) | (19,925,822) |
| Dividend paid (Note 4)                                   |      | (1,255,300)  | —            |
| Net cash outflow from financing activities               |      | (8,877,518)  | (11,867,751) |
| Net decrease in cash and cash equivalents                |      | (5,263,562)  | (3,979,512)  |
| Cash and cash equivalents, beginning of year             |      | 14,433,498   | 18,413,010   |
| Cash and cash equivalents, end of year                   |      | 9,169,936    | 14,433,498   |
| <b>Analysis of the cash and cash equivalents:</b>        |      |              |              |

The adoption of SSAP 12 also resulted in an increase of the deferred tax assets of Union New Century as of 31 December 2002 by approximately RMB80,448,000, which had reduced the goodwill recorded by the Group arising from the acquisition of Union New Century on 31 December 2002 accordingly.

Since the impact of the adoption of the SSAP35 "Government Grants and Disclosure of Government Assistance" on the Group's financial statements is not significant, no prior period adjustment has been required.

## 2. OPERATING REVENUE

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

## 3. TAXATION

Provision for taxation represents:

|   | Note | 2003      | 2002      |
|---|------|-----------|-----------|
|   |      | RMB'000   | RMB'000   |
| Provision for PRC enterprise income tax on the estimated taxable profits for the year |      | 1,064,968 | 1,192,801 |
| Deferred taxation   | 1    | 823,413   | 527,404   |
|   |      | 1,888,381 | 1,720,205 |

There is no Hong Kong profits tax liability as the Group does not have any assessable income sourced from Hong Kong for the years 2003 and 2002.

## 4. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2003 and 2002 were computed by dividing the profit attributable to shareholders of approximately RMB4,217,097,000 and RMB4,598,213,000 (restated) respectively, by the weighted average number of ordinary shares of 12,552,010,054 and 12,552,996,070 in issue during the year.

Diluted earnings per share for the years ended 31 December 2003 and 2002 were computed by dividing the profit attributable to shareholders of approximately RMB4,217,097,000 by the weighted average number of 12,568,683,423 ordinary shares in issue during the year, after adjusting for the effects of the dilutive potential ordinary shares arising from share options granted under (i) the amended Pre-Global Offering Share Option Scheme and (ii) the amended Share Option Scheme. All potential dilutive shares arose from additional share options granted in 2003 under the amended Share Option Scheme, which if converted to ordinary shares would decrease profit attributable to the shareholders per share. The anti-dilutive shares arose from the share options of approximately 66,573,000 shares were not included in the calculation of diluted earnings per share.

For the year ended 31 December 2002, all potential dilutive shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme and (ii) the amended Share Option Scheme. There was no dilution of net earnings per share after taking into account the dilutive effect of the share options. The anti-dilutive shares arose from the share options of approximately 48,745,000 shares were not included in the calculation of diluted earnings per share.

## 5. PROFITS ATTRIBUTABLE TO SHAREHOLDERS

At the annual general meeting held on 12 May 2003, the shareholders of the Company approved the payment of final dividend of RMB10 per ordinary share for the year ended 31 December 2002 totalling RMB1,255,996,070, which has been reflected as an appropriation of retained profits for the year 2003. As of 31 December 2003, such dividends have been fully paid by the Company.

At a meeting held on 25 March 2004, the Board of Directors of the Company proposed the payment of final dividend of RMB10 per ordinary share to the shareholders for the year ended 31 December 2003 totalling RMB1,255,996,070. This proposed dividend has not been reflected as a dividend payable in the financial statements as of 31 December 2003, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

## 6. RELATED PARTY TRANSACTIONS

The following is a summary of significant recurring transactions carried out with Union Group and its subsidiaries. These transactions also comprise connected transactions under the Listing Rules. In the director's opinion, these transactions were carried out on normal commercial terms in the ordinary course of business.

|  | 2003      | 2002      |
|--|-----------|-----------|
|  | RMB'000   | RMB'000   |
| <b>Transactions with Union Group and its subsidiaries:</b>                   |           |           |
| Interconnection and roaming revenues   | 1,002,702 | 1,678,637 |
| Interconnection and roaming charges  | 316,271   | 331,179   |
| Rent of premises, equipment and facilities                                   | 17,936    | 17,936    |
| Revenue for leasing of transmission line capacity                            | 185,086   | 566,519   |
| Sales of CDMA mobile handsets  | 64,299    | 487,850   |
| Charges for the international gateway services                               | 8,631     | 15,626    |
| Leasing of satellite transmission capacity                                   | 26,400    | 35,153    |
| Purchase of telecommunication  | 1,186,500 | 877,221   |
| CDMA network capacity lease rental   | 3,515,364 | 891,897   |
| Commission expenses for sales agency services incurred for telecommunication | 16,175    | 18,497    |
| Agency fee incurred for procurement of telecommunication equipment           | 17,904    | 17,904    |
| Rental for the PRC corporate office  | 7,598     | —         |
| Sales of telecommunication equipment   | —         | 16,088    |

## 7. SEGMENT INFORMATION

Operating segments represent components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker, or decision making group, when considering how to allocate resources and in assessing performance.

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

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

### (a) Business segments

|   | 2003         |               |                            |                        |                 |                     |              |
|---|--------------|---------------|----------------------------|------------------------|-----------------|---------------------|--------------|
|   | GSM Business | CDMA Business | Data and Internet Business | Long Distance Business | Paging Business | Unallocated amounts | Elimination  |
|   | RMB'000      | RMB'000       | RMB'000                    | RMB'000                | RMB'000         | RMB'000             | RMB'000      |
| <b>Operating Revenue (Turnover):</b>                        |              |               |                            |                        |                 |                     |              |
| Usage fee   | 29,072,249   | 11,671,523    | 2,443,610                  | 1,148,400              | —               | —                   | 44,335,422   |
| Monthly fee   | 7,042,299    | 3,488,411     | 9,085                      | —                      | 612,999         | —                   | 11,152,794   |
| Interconnection revenue                                     | 1,926,907    | 607,830       | 36,514                     | 365,724                | 1,454           | —                   | 3,208,829    |
| Leased lines rental   | —            | —             | 420,433                    | 701,549                | —               | —                   | 1,121,982    |
| Other revenue   | 2,262,156    | 855,754       | 202,441                    | 57,835                 | 788,400         | —                   | 4,166,586    |
| Total services revenue                                      | 40,363,611   | 16,623,518    | 3,437,083                  | 2,273,148              | 1,403,053       | —                   | 64,040,413   |
| Sales of telecommunication products                         | 862,777      | 1,956,452     | 7,814                      | 1,414                  | 753,955         | —                   | 3,595,912    |
| Total operating revenue from external customers             | 41,166,388   | 18,579,970    | 3,444,997                  | 2,283,962              | 2,157,008       | —                   | 67,636,325   |
| Inter segment revenue                                       | 41,207       | 41,725        | 1,828,222                  | 866,728                | 230,075         | —                   | (3,605,807)  |
| Total operating revenue                                     | 41,207,485   | 18,621,695    | 5,273,219                  | 3,150,790              | 2,387,083       | —                   | 64,030,518   |
| Operating expenses:   |              |               |                            |                        |                 |                     |              |
| Leased lines and network capacities                         | (3,939,410)  | (3,576,498)   | (294,888)                  | (78,027)               | (80,084)        | —                   | 48,325       |
| Interconnection charges                                     | (5,478,230)  | (1,684,749)   | (712,120)                  | (752,231)              | —               | 2,727,207           | (5,920,793)  |
| Depreciation and amortisation                               | (13,117,966) | (806,754)     | (1,308,239)                | (419,346)              | (1,144,923)     | (5,550)             | (16,385,297) |
| Personnel   | (2,605,475)  | (660,894)     | (525,726)                  | (333,051)              | (415,554)       | (3,846)             | (4,546,546)  |
| Selling and marketing                                       | (4,605,600)  | (9,341,877)   | (883,495)                  | (405,904)              | (126,018)       | —                   | 6,059        |
| General, administrative and other expenses                  | (5,571,493)  | (1,363,927)   | (761,405)                  | (462,081)              | (916,418)       | (37,371)            | 490          |
| Cost of telecommunication products sold                     | (785,926)    | (2,177,168)   | (22,250)                   | (4,231)                | (907,607)       | (180)               | 225,227      |
| Total operating expenses                                    | (32,484,330) | (18,911,867)  | (4,525,213)                | (2,455,116)            | (3,900,603)     | (77,047)            | (59,122,279) |
| Operating profit (loss)                                     | 8,723,155    | (290,172)     | 745,906                    | 699,629                | (1,203,610)     | (77,047)            | 8,514,046    |
| Loss on sale of Guoxin Paging                               | —            | —             | —                          | —                      | —               | (663,279)           | (663,279)    |
| Interest income   | 8,723,155    | (290,172)     | 745,906                    | 699,629                | (1,203,610)     | (77,047)            | 7,850,767    |
| Finance costs   | (2,154,050)  | (32,078)      | (67,291)                   | (56,940)               | (5,238)         | (40,727)            | 15,808       |
| Other expense (income), net                                 | (1,679,609)  | 3,680         | (4,741)                    | 1,488                  | 39,868          | (10,615)            | 8071         |
| Segment profit (loss) before taxation and minority interest | 7,005,462    | (311,557)     | 682,963                    | 647,571                | (1,159,881)     | (21,655)            | 6,905,849    |
| Profit before taxation                                      | —            | —             | —                          | —                      | —               | —                   | 6,905,849    |
| Taxation  | —            | —             | —                          | —                      | —               | —                   | (1,888,381)  |
| Profit after taxation                                       | —            | —             | —                          | —                      | —               | —                   | 5,017,468    |
| Minority interests  | —            | —             | —                          | —                      | —               | —                   | 2,629        |
| Profit attributable to shareholders                         | —            | —             | —                          | —                      | —               | —                   | 4,217,097    |
| Other information:  |              |               |                            |                        |                 |                     |              |
| Provision for doubtful debts                                | 1,116,523    | 397,810       | 125,676                    | 75,870                 | 34,008          | —                   | 1,749,887    |
| Impairment loss recognised in the income statement          | —            | —             | —                          | —                      | —               | —                   | 528,038      |
| Capital expenditures for segment assets <sup>(1)</sup>      | 8,906,166    | —             | 4,128,985                  | 2,555,252              | 35,126          | 4,129,690           | 19,525,219   |

|   | 2002         |               |                            |                        |                 |                     |              |
|---|--------------|---------------|----------------------------|------------------------|-----------------|---------------------|--------------|
|   | GSM Business | CDMA Business | Data and Internet Business | Long Distance Business | Paging Business | Unallocated amounts | Elimination  |
|   | RMB'000      | RMB'000       | RMB'000                    | RMB'000                | RMB'000         | RMB'000             | RMB'000      |
| <b>Operating Revenue (Turnover):</b>                        |              |               |                            |                        |                 |                     |              |
| Usage fee   | 20,274,987   | 2,231,050     | 2,066,415                  | 1,223,051              | —               | —                   | 25,798,503   |
| Monthly fee   | 4,169,129    | 713,483       | 9,478                      | —                      | 1,912,786       | —                   | 6,084,876    |
| Interconnection revenue                                     | 1,709,771    | 184,296       | 348,248                    | 664,302                | 113,123         | —                   | 3,019,740    |
| Leased lines rental   | —            | —             | 274,274                    | 873,054                | —               | —                   | 1,147,328    |
| Other revenue   | 1,234,038    | 96,518        | 91,624                     | 5,316                  | 135,279         | —                   | 1,562,757    |
| Total services revenue                                      | 27,387,925   | 3,225,347     | 2,795,939                  | 2,765,723              | 2,161,188       | —                   | 38,332,222   |
| Sales of telecommunication products                         | 721,100      | 423,057       | 5,631                      | 13,258                 | 1,080,257       | —                   | 2,243,303    |
| Total operating revenue from external customers             | 28,109,025   | 3,648,404     | 2,798,570                  | 2,778,981              | 3,241,445       | —                   | 40,575,525   |
| Inter segment revenue                                       | —            | —             | 598,888                    | 682,423                | 731,009         | —                   | (1,973,320)  |
| Total operating revenue                                     | 28,109,025   | 3,648,404     | 3,397,458                  | 3,461,404              | 3,972,454       | —                   | 40,575,525   |
| Operating expenses:   |              |               |                            |                        |                 |                     |              |
| Leased lines and network capacities                         | (205,374)    | (932,994)     | (211,028)                  | (93,079)               | (136,024)       | —                   | 5,244        |
| Interconnection charges                                     | (3,386,924)  | (279,440)     | (408,843)                  | (555,470)              | —               | 1,400,705           | (3,229,640)  |
| Depreciation and amortisation                               | (8,322,549)  | (100,902)     | (697,188)                  | (687,420)              | (1,442,836)     | (4,829)             | (11,255,724) |
| Personnel   | (1,780,173)  | (281,243)     | (396,150)                  | (290,973)              | (555,263)       | (31,414)            | (3,038,218)  |
| Selling and marketing                                       | (2,663,531)  | (2,126,475)   | (651,994)                  | (305,905)              | (238,640)       | —                   | 4,797        |
| General, administrative and other expenses                  | (3,370,938)  | (506,715)     | (590,531)                  | (501,657)              | (597,427)       | (65,726)            | 1,144        |
| Cost of telecommunication products sold                     | (744,640)    | (408,791)     | (11,299)                   | (5,049)                | (1,626,157)     | —                   | 599,730      |
| Total operating expenses                                    | (20,473,797) | (4,636,560)   | (2,976,631)                | (2,439,157)            | (4,596,345)     | (101,969)           | (33,252,841) |
| Operating profit (loss)                                     | 7,635,228    | (988,156)     | 381,925                    | 1,022,247              | (663,893)       | (101,969)           | 7,322,684    |
| Loss on disposal of Guoxin Paging                           | —            | —             | —                          | —                      | —               | —                   | —            |
| Interest income   | 7,635,228    | (988,156)     | 381,925                    | 1,022,247              | (663,893)       | (101,969)           | 7,322,684    |
| Finance costs   | 48,503       | 4,146         | 4,525                      | 5,516                  | 17,374          | 390,218             | 470,282      |
| Other expense (income), net                                 | 1,287,413    | (47,979)      | (72,864)                   | (48,789)               | (8,348)         | (9,018)             | (1,474,441)  |
| Other expense (income), net                                 | (466,889)    | (10)          | (2,562)                    | (152)                  | 24,993          | —                   | (1,663,539)  |
| Segment profit (loss) before taxation and minority interest | 6,349,399    | (1,031,999)   | 311,024                    | 978,822                | (589,872)       | 287,492             | 6,303,166    |
| Profit before taxation                                      | —            | —             | —                          | —                      | —               | —                   | 6,303,166    |
| Taxation  | —            | —             | —                          | —                      | —               | —                   | (1,720,205)  |
| Profit after taxation                                       | —            | —             | —                          | —                      | —               | —                   | 4,582,961    |
| Minority interests  | —            | —             | —                          | —                      | —               | —                   | 15,252       |
| Profit attributable to shareholders                         | —            | —             | —                          | —                      | —               | —                   | 4,598,213    |
| Other information:  |              |               |                            |                        |                 |                     |              |
| Provision for doubtful debts                                | 802,914      | 42,050        | 70,922                     | 46,124                 | 9,979           | —                   | 971,989      |
| Impairment loss recognised in the income statement          | —            | —             | —                          | —                      | —               | —                   | 38,797       |
| Capital expenditures for segment assets <sup>(1)</sup>      | 7,899,442    | —             | 3,247,507                  | 3,343,330              | 208,460         | 4,236,036           | 18,934,775   |

|                           | As of 31 December 2003 |               |                            |                        |                 |                     |             |
|---------------------------|------------------------|---------------|----------------------------|------------------------|-----------------|---------------------|-------------|
|                           | GSM Business           | CDMA Business | Data and Internet Business | Long Distance Business | Paging Business | Unallocated amounts | Elimination |
|                           | RMB'000                | RMB'000       | RMB'000                    | RMB'000                | RMB'000         | RMB'000             | RMB'000     |
| Total segment assets      | 104,172,531            | 4,717,167     | 8,611,873                  | 19,061,967             | 63,334,534      | (50,218,142)        | 149,837,830 |
| Total segment liabilities | 36,337,496             | 6,361,772     | 3,975,293                  | 8,918,025              | 5,929,854       | —                   | 80,222,446  |

|                           | As of 31 December 2002 |               |                            |                        |                 |                     |             |
|---------------------------|------------------------|---------------|----------------------------|------------------------|-----------------|---------------------|-------------|
|                           | GSM Business           | CDMA Business | Data and Internet Business | Long Distance Business | Paging Business | Unallocated amounts | Elimination |
|                           | RMB'000                | RMB'000       | RMB'000                    | RMB'000                | RMB'000         | RMB'000             | RMB'000     |
| Total segment assets      | 97,888,808             | 5,724,427     | 7,081,704                  | 13,876,837             | 84,018,717      | (58,016,167)        | 141,370,609 |
| Total segment liabilities | 67,066,655             | 5,788,290     | 2,785,794                  | 3,892,022              | 2,205,141       | —                   | 81,409,411  |

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

## BUSINESS OVERVIEW

### 1. Summary

In 2003, the Company achieved rapid development in its core businesses in accordance with the operating principles of "integrated development with our focus on the cellular business; coordinated efforts in developing the different operations of the two networks; priority on efficiency and profitability to increase our scale and strength".

Our market share continued to expand in terms of cellular subscribers. As of 31 December 2003, the Company had a total of 80.83 million cellular subscribers. The Company's total market share in its service areas increased to 34.6% at the end of 2003 from 33.1% at the end of 2002, whilst the net addition market share increased to 39.3% at the end of 2003.

CDMA business grew rapidly. As of 31 December 2003, the Company had a total of 16.91 million CDMA subscribers and 1.93 million subscribers for the CDMA1X wireless data service. Total minutes of use by CDMA subscribers in 2003 reached 43.70 billion minutes. SMS volume reached 6.23 billion messages. We have commenced CDMA international roaming services with 15 operators in 16 countries and regions.

GSM business showed sustained growth. As of 31 December 2003, the Company had a total of 63.92 million GSM subscribers. Total minutes of use of GSM subscribers in 2003 reached 123.39 billion minutes. SMS volume reached 25.03 billion messages. We have commenced GSM international roaming services with 165 operators in 80 countries and regions.

The information referred to as "2003 pro forma" in this report refers to the information of cellular operation in 21 provinces as of 31 December 2002 upon the completion of the acquisition of GSM business and CDMA business in 9 Provinces, Municipalities and Autonomous regions including Jilin (the "2002 Acquired Cellular Businesses") on a combined basis.

Information regarding cellular operation in 30 provinces for 2003 upon the completion of the acquisition of GSM business and CDMA business in 9 provinces and autonomous regions including Shanxi (the "2003 Acquired Cellular Businesses") on a combined basis will be separately disclosed in section III of this report.

On a pro forma basis, the Company made net addition of 21,123 million new subscribers in 2003, of these new subscribers, 10,665 million were from CDMA and 10,458 million were from GSM.

Growth in the Company's international and domestic long distance, data and Internet business remained steady. Total minutes of outgoing international and domestic long distance calls reached 19.83 billion minutes in 2003, representing a market share of 14.0%. Of this total, PSTN outgoing long distance calls reached 8.44 billion minutes, and IP outgoing calls reached 11.39 billion minutes. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan amounted to 191 million minutes. The Company's leased line service had a total of 26,000 x 2Mbps bandwidth leased out in 2003. The amount of leased Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") bandwidth totaled 7194 x 2Mbps. As of 31 December 2003, the Company had 12,432 million Internet subscribers.

The paging business continued to decline. As of 31 December 2003, the Company had 8,560 million paging subscribers. The Company's optical fiber transmission network continued to expand. As of 31 December 2003, the total length of optical fiber transmission network was 569 thousand km, of which optical fiber backbone transmission network accounted for 115 thousand km.



|   | 2002           |                             | 2002 pro forma |                             | 2003           |                             |
|---|----------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|
|   | RMB in million | percentage of total revenue | RMB in million | percentage of total revenue | RMB in million | percentage of total revenue |
| Total operating expenses:                                 | 33,253         | 82.0%                       | 41,501         | 82.6%                       | 59,122         | 87.4%                       |
| Leased lines and network capacities                       | 1,583          | 3.9%                        | 2,021          | 4.0%                        | 4,320          | 6.4%                        |
| Interconnection charges                                   | 3,220          | 8.0%                        | 3,755          | 7.5%                        | 5,921          | 8.7%                        |
| Depreciation and amortization                             | 14,348         | 20.6%                       | 14,348         | 28.6%                       | 16,385         | 24.4%                       |
| Personnel   | 3,335          | 8.2%                        | 4,006          | 8.0%                        | 4,575          | 6.8%                        |
| Selling and marketing                                     | 5,981          | 14.8%                       | 7,851          | 15.6%                       | 15,157         | 22.4%                       |
| General, administrative and other expenses                | 5,632          | 13.9%                       | 7,087          | 14.1%                       | 9,112          | 13.5%                       |
| Include: Impairment and disposal loss for paging business | —              | —                           | —              | —                           | 557            | 0.8%                        |
| Cost of telecommunications products sold                  | 2,236          | 5.5%                        | 2,433          | 4.8%                        | 3,652          | 5.4%                        |

#### 1. Leased lines and network capacities

As the lease expense for CDMA network capacities in 2003 increased to RMB3.52 billion, the aggregate amount of our leased line and network capacity lease expenses increased to RMB4.32 billion, with their proportion to total operating revenue rose from 4.0% in 2002 pro forma to 6.4% in 2003, representing an increase of 113.8% from 2002 pro forma.

#### 2. Interconnection charges

Along with the increase in interconnection traffic, interconnection charges increased by 83.3% to RMB5.92 billion in 2003, an increase of 57.7% from 2002 pro forma. Interconnection charges for CDMA and GSM Cellular Business increased by 418.8% and 22.3% from 2002 pro forma, respectively. Interconnection charges for Long Distance, Data and Internet Business increased by 54.0% from 2002 pro forma. As our various business segments continued to develop, interconnection charges as a percentage of total operating revenue also increased from 7.5% in 2002 pro forma to 8.7%.

#### 3. Depreciation and amortization

As network capacity expanded in connection with the development of the GSM Cellular Business and the growing assets scale, depreciation and amortization expenses increased by 45.6% to RMB16.39 billion in 2003, at a lower growth rate than the growth in operating revenue, and accounted for an increase of 14.2% from 2002 pro forma. Depreciation and amortization expenses as a percentage of total operating revenue decreased from 28.6% in 2002 pro forma to 24.2% in 2003.

#### 4. Personnel

As of the end of 2003, we had 38,728 employees, an increase of 32.0% from 29,332 at the end of 2002, and an increase of 10.5% from 35,055 at the end of 2002 pro forma. Our personnel expenses were RMB4.57 billion in 2003, its share as a percentage of total operating revenue dropped to 6.8%, a decrease of 8.0% in 2002 pro forma. In order to align the interest of our employees with that of our shareholders, we have set up an employee share option scheme and granted options to qualified employees. During 2003, total share options involving 105,956,000 shares in the Company were granted under the share option scheme. For more information regarding our share option scheme, please refer to Report from the Directors and Note 32 to the Financial Statements.

#### 5. Selling and marketing

Our major selling and marketing expenses included commissions, promotion and advertising expenses and amortization of CDMA subscribers acquisition costs. Selling and marketing expenses totaled RMB15.16 billion in 2003, an increase of 153.4% from 2002, and an increase of 93.1% from 2002 pro forma. Amortization of CDMA subscribers acquisition costs in 2003 were RMB5.84 billion, an increase of 174.2% from 2002 pro forma. Deferred CDMA subscribers acquisition costs fell from RMB5.99 billion as of the end of 2002 to RMB4.04 billion as of the end of 2003. Due to the continued growth in the subscriber base of our various business segments, the commission payable to qualified employees increased slightly from 2.6% in 2002 pro forma to 2.7% in 2003. This has also given rise to an increase in our general, administrative and other expenses.

#### 6. General, administrative and other expenses

Our general, administrative and other expenses were RMB9.11 billion in 2003. After accounting for the impairment loss and disposal of assets in Paging Business amounting to RMB0.56 billion, total expenses for this category increased by 51.9% from RMB5.63 billion in 2002. General, administrative and other expenses as a percentage of total operating revenue decreased from 13.9% in 2002 to 13.5% in 2003. In 2003, the provision for doubtful debts was RMB1.75 billion, an increase of 39.1% from 2002 pro forma. Provision for doubtful debts as a percentage of total operating revenue decreased from 5.3% in 2002 pro forma to 2.7% in 2003. This has also given rise to an increase in our general, administrative and other expenses.

#### 7. Cost of telecommunications products sold

The cost of telecommunications products sold increased to RMB3.65 billion in 2003, an increase of 50.1% from 2002 pro forma. The share of cost of telecommunications products sold as a percentage of operating revenue increased from 4.8% in 2002 pro forma to 5.4%.

#### IV. Earnings

##### 1. Operating profit

In 2003, our operating profit reached RMB8.51 billion, an increase of 16.3% from 2002, a decrease of 2.6% from 2002 pro forma.

Operating loss from our CDMA Cellular Business was RMB0.29 billion, while CDMA Cellular Business began to realize a profit since the third quarter. Operating profit from our GSM Cellular Business increased to RMB8.72 billion, an increase of 95.4% from 2002, and an increase of 53.1% from 2002 pro forma. Operating profit from our Data and Internet Business increased to RMB1.45 billion, an increase of 2.9% from 2002 pro forma. While operating profit from Long Distance Business fell to RMB0.7 billion due to a reduction in the interconnection revenue, operating profit from our Data and Internet Business increased to RMB0.75 billion. Operating loss from our Paging Business was RMB1.2 billion.

##### 2. Financial costs

In 2003, the Company further allocated the capital resources in an active and proper approach, whereas the objective was to reduce the financial costs. In 2003, the financial costs were reduced from RMB1.92 billion for 2002 pro forma to RMB1.76 billion for 2003, a decline of 8.1%.

##### 3. Loss on sale of Guoxing Paging

Disposal loss on the sale of Guoxing Paging amounted to RMB0.66 billion in 2003.

##### 4. Income tax

Our income tax increased to RMB1.89 billion in 2003, an increase of 6.1% as compared to 2002 pro forma. The resulting effective tax rate was 31.0%, up by approximately 5 percent as compared to 26.2% in 2002 pro forma. Nevertheless, this rate was lower than the standard tax rate of 33%.

Notice is hereby given that the Annual General Meeting of China Unicorn Limited will be held on 12 May 2004 at 10:00 a.m. at Atrium Room, Level 39, Island Shangri-la Hotel, Two Pacific Place, Supreme Court Road, Queensway, Hong Kong for the following purposes:

#### As Ordinary Business:

- To receive and consider the financial statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2003.
- To declare a final dividend for the year ended 31 December 2003.
- To elect and re-elect the Directors and to authorise the Directors to fix their remuneration for the year ending 31 December 2004.
- To re-appoint Auditors, and to authorise the Directors to fix their fees for the year ending 31 December 2004.

As Special Business, to consider and, if thought fit, to amend the Company's Articles of Association by passing the following Resolution as a Special Resolution:

#### SPECIAL RESOLUTION

5. "THAT the Articles of Association of the Company be and are hereby amended as follows:-

- In Article 2(a) (relating to interpretation):
  - by adding, immediately before the definition of "Auditors" in that Article, the following new definition: "associate in relation to any Director, has the meaning ascribed to it under the Listing Rules";
  - by deleting the words "section 2 of the Securities and Futures (Clearing Houses) Ordinance" in the 2nd line of the definition of "Clearing House" in that Article and replacing them with the words "Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)";
  - by adding, immediately before the definition of "month" in that Article, the following new definition: "Listing Rules" means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited"; and
  - by deleting the definition of "in writing and written" in that Article in its entirety and replacing it with the following:
 

"In writing and written" shall include printing, lithograph, xerography, photography or other modes of representing or reproducing words in a permanent visible form or, to the extent permitted by and in accordance with the Ordinance and any other applicable laws, rules and regulations, any visible substitute for writing (including a communication sent by electronic transmission in any form through any medium), or modes of representing or reproducing words partly in one visible form and partly in another visible form";
- In Article 69(a) (relating to voting), by adding, immediately after the words "shall be decided on a show of hands unless" in the 1st and 2nd line of that Article, the words "a poll is required under the Listing Rules or";
- In Article 69(b) (relating to voting), by adding, immediately after the words "Unless a poll is" in the 1st line of that Article, the words "so required or";
- In Article 70 (relating to voting), by replacing the second, third and last sentence of that Article with the following: "If a poll is required or demanded in the manner above mentioned it shall (subject to the provisions of Article 70 hereof) be taken at such time (being not later than thirty days after the date of the meeting at which the poll was required or demanded) and in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may appoint. No notice need be given of a poll taken immediately. The result of such poll shall be deemed for all purposes to be the result of the meeting at which the poll was required or demanded";
- In Article 78 (relating to votes of members), by adding, immediately after that Article, the following:
 

"78A. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted";
- In Article 81 (relating to proxies), by adding, immediately after the words "except at an adjourned meeting or on a poll" in the 8th and 9th line of that Article, the words "required or";
- In Article 97 (relating to appointment and removal of directors), by deleting the words "not less than" in the 10th line of that Article and replacing them with the following: "during a period of not less than seven (7) days commencing on the day after the dispatch of the notice of the meeting appointed for such election and ending no later than the day after the meeting";
- In Article 100 (relating to appointment and removal of directors), by deleting the word "special" in the 1st line of that Article and replacing it with the word "ordinary";
  - In Article 104 (relating to alternate directors): (i) by deleting the sentence "Any Director of the Company who is appointed an alternate director shall be considered as two Directors for the purpose of making a quorum of Directors." in the 16th and 17th line of that Article; and (ii) by deleting the sentence "A Director shall not be liable for the acts or defaults of any alternate Director appointed by him." in the 20th and 21st line of that Article and replacing it with the following:
 

"Every person acting as an alternate Director shall be deemed to be the agent of and for the Director appointing him and shall, without prejudice to any liability which he may cause to his appointor under the Ordinance or otherwise, be responsible to the Company for his own acts and defaults";
  - In Article 105(g) (relating to disqualification of directors), by deleting the words "a special" in that Article and replacing them with the words "an ordinary";
  - In Article 106 (relating to directors' interests), by deleting the first and second sentence of that Article and replacing them with the following:
 

"If a Director or any of his associates is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, the Director shall declare the nature of his interest or the interest of any of his associates at the earliest meeting of the Board at which it is practicable for him to do so notwithstanding that the question of entering into the contract, transaction or arrangement is not taken into consideration at that meeting. A general notice given to the Board by a Director stating that, by reason of facts specified in the notice, he or any of his associates is to be regarded as interested in a contract, transaction or arrangement of any description which may subsequently be made by the Company, that notice shall be a sufficient declaration of his interest or the interest of his associates, so far as attributable to those facts, in relation to that contract, transaction or arrangement which may subsequently be made by the Company; but no such general notice shall have effect in relation to any contract, transaction or arrangement unless it is given before the date on which the question of entering into the contract, transaction or arrangement is first taken into consideration on behalf of the Company";
  - In Article 108 (relating to directors' interests), by deleting that Article in its entirety and replacing it with the following:
 

"108. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or proposal in which he or any of his associates is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters, namely:

    - any contract or arrangement for the giving by the Company of any security or indemnity to the Director or any of his associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
    - any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates is or is to be interested in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
    - any proposal concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
    - any contract or arrangement in which the Director or any of his associates is interested in the capacity of agent, broker, holder of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
    - any proposal concerning any other company in which the Director or any of his associates is interested only, whether directly or indirectly, as an officer or a shareholder or in which the Director or any of his associates is beneficially interested in shares of that company other than a company in which his or their associates are, in aggregate, beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which such interest is derived) or of the voting rights (exercising for the purpose of calculating such five per cent. interest any indirect interest of such Director or any of his associates by virtue of the interest of the Company in such company);

#### 5. Net profit

Our net profit reached RMB4.22 billion in 2003. Basic earnings per share was RMB0.336, a decrease of 8.3% from RMB0.366 in 2002. Without taking account of the RMB0.56 billion in impairment loss and assets write-off of the Paging Business in our Paging Business and the RMB0.66 billion loss on sale of Guoxing Paging, net profit would have been RMB5.08 billion, representing an increase of 10.5% from 2002.

#### V. EBITDA

Our EBITDA increased by 34.0% from 2002 to RMB24.90 billion in 2003, an increase of 7.8% from 2002 pro forma. EBITDA margin (EBITDA as a percentage of operating revenue) fell from 46.0% in 2002 pro forma to 36.8%.

EBITDA for the GSM Cellular Business rose by 4.4% from 2002 pro forma to RMB21.84 billion. EBITDA margin fell from 55.5% in 2002 pro forma to 53.0%. EBITDA for the CDMA Cellular Business changed from a loss of RMB1.34 billion in 2002 pro forma to a profit of RMB20 million.

EBITDA for the Long Distance, Data and Internet Business grew by 13.6% to RMB3.17 billion in 2003, an increase of 13.6% from 2002 pro forma. EBITDA margin for this business fell from 40.9% in 2002 pro forma to 37.6%. While EBITDA margin for the Long Distance Business fell from 49.4% in 2002 pro forma to 35.5% as a result of the decrease in interconnection revenue, EBITDA margin for the Data and Internet Business grew from 32.1% in 2002 pro forma to 40.4% in 2003. Impairment loss and disposal of assets and write-off of the Paging Business in our Paging Business, EBITDA for the Paging Business would have been changed from a gain of RMB0.82 billion in 2002 to a loss of RMB60 million in 2003.

#### VI. Capital expenditure and free cash flow

During 2003, the Company implemented strict controls over the capital expenditures and endeavoured to lower the unit construction cost. The Company was able to effectively control its capital expenditures, notwithstanding that adequate investments were made as appropriate in regions of high market demand. Capital expenditures for our various business totaled RMB19.76 billion in 2003. Capital expenditures attributable to the GSM Cellular Business, the Long Distance, Data and Internet Business, the Paging Business, the transmission network and other projects were RMB9.91 billion, RMB2.13 billion, RMB40 million, RMB4.55 billion and RMB4.13 billion respectively.

The following table sets forth the capital expenditures in each business segment for 2003 and our planned capital expenditures in 2004.

|                                  | 2003<br>(RMB in billion) |                       | 2004<br>(RMB in billion) |                         |
|----------------------------------|--------------------------|-----------------------|--------------------------|-------------------------|
|                                  | 21 Provinces<br>Total    | 30 Provinces<br>Total | 21 Provinces<br>Total    | 9 Provinces<br>Include: |
| Total                            | 19.76                    | 19.35                 | 17.87                    | 1.48                    |
| Cellular                         | 8.91                     | 6.53                  | 5.05                     | 1.48                    |
| Long Distance, Data and Internet | 1.04                     | 1.50                  | 1.50                     | —                       |
| Paging                           | 0.04                     | —                     | —                        | —                       |
| Transmission network             | 4.55                     | 3.43                  | 3.43                     | —                       |
| Others                           | 4.13                     | 7.89                  | —                        | —                       |

Note: Capital expenditure for Cellular Business in 2003 is the total expenditures for business operating in 21 Provinces, municipalities and autonomous regions. Capital expenditure for Cellular Business in 2004 is the total capital expenditures for businesses operating in 30 Provinces, municipalities and autonomous regions, including the 9 Provinces and Autonomous regions acquired by the Company on December 31, 2003.

Free cash flow in 2003 improved significantly from an outflow of RMB5.89 billion in 2002 to an inflow of RMB2.81 billion.

Projected capital expenditures for 2004 with respect to all 30 provinces, municipalities and autonomous regions in which we operate is RMB19.35 billion (which include RMB17.87 billion for the 21 Provinces and RMB1.48 billion for newly acquired businesses in 9 Provinces and autonomous regions, which will be used mainly to improve the GSM network and network transmission infrastructure. The Company will rely principally on cash generated by operations for satisfying its capital expenditures needs.

#### VII. Acquisition of Unicorn New World and the sale of Guoxin Paging

In December 2003, we acquired the GSM cellular assets and businesses and CDMA cellular businesses of Unicorn New World in the following nine provinces and autonomous regions, namely: Shanxi, the Inner Mongolia, Hunan, Hainan, Yunnan, Xizang, Gansu, Qinghai and Ningxia, at an enterprise value of RMB11.1 billion (equivalent to the sum of its net indebtedness of RMB8.1 billion as at June 30, 2003 and the total acquisition price of RMB3.0 billion). On the same date, the Company sold the entire equity interests in Guoxin Paging for a total price of RMB2.75 billion.

We are pleased with the operating results of the Cellular Business of Unicorn New World in 2003. Operating revenue from the Cellular Business of Unicorn New World was RMB8.14 billion, 53.0% higher than RMB5.32 billion in 2002. Net profit for these businesses improved from a loss of RMB0.12 billion in 2002 to a profit of RMB0.35 billion.

Taking into account the acquisition of Unicorn New World and the sale of Guoxin Paging, the Unaudited Pro Forma revenue of the combined group was RMB72.33 billion in 2003, representing an increase of 40.3% from 2002, the Unaudited Pro Forma EBITDA was RMB8.51 billion, representing an increase of 13.5% from 2002 and the Pro Forma net profit was RMB5.77 billion in 2003, representing an increase of 6.0% from 2002.

The following table sets forth the Unaudited Pro Forma information for the years ended 31 December 2003 and 2002 of the Combined Group taking into account the acquisition of Unicorn New World and the sale of Guoxin Paging.

|                                      | Unaudited Pro Forma information<br>of the Combined Group<br>2003 |   | 2002              |   |
|--------------------------------------|--|---|-------------------|---|
|                                      | RMB<br>in million  | As<br>percentage<br>of total<br>revenue | RMB<br>in million | As<br>percentage<br>of total<br>revenue |
| Operating Revenue (Turnover):        |  |   |                   |   |
| GSM Business                         | 45,409   | 62.7%                                   | 40,869            | 79.2%                                   |
| CDMA Business                        | 18,336   | 25.4%                                   | 4,733             | 9.2%                                    |
| Data and Internet Business           | 3,168  | 4.4%                                    | 2,504             | 4.9%                                    |
| Long Distance Business               | 2,000  | 2.8%                                    | 1,747             | 3.4%                                    |
| Paging Business                      | —  | —                                       | —                 | —                                       |
| Total service revenue                | 68,930   | 95.3%                                   | 49,853            | 96.7%                                   |
| Sales of telecommunications products | 3,397  | 4.7%                                    | 1,684             | 3.3%                                    |
| Total operating revenue              | 72,327   | 100%                                    | 51,537            | 100%                                    |
| Operating expenses:                  |  |   |                   |   |
| Leased lines and network capacities  | (4,727)  | 6.5%                                    | (2,107)           | 4.1%                                    |
| Interconnection charges              | (6,119)  | 8.5%                                    | (3,953)           | 7.7%                                    |
| Depreciation and amortization        | (16,765)   | 23.2%                                   | (14,165)          | 27.5%                                   |
| Personnel                            | (4,355)  | 6.0%                                    | (3,657)           | 7.1%                                    |

#### Notice of Annual General Meeting

- any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates to Directors, their associates and employees of the Company or any of its subsidiaries and does not give in respect of any such Director or any of his associates any privilege or advantage not generally accorded to the class of persons to whom such scheme or fund relates;
  - any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or any of his associates may benefit.
- If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or any of his associates or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director or any of his associates shall be final and conclusive, except in a case where the nature or extent of the interest of the Director concerned or any of his associates as known to such Director has not been fairly disclosed to the Board.
- In Articles 143 and 144 (relating to accounts and auditors), by deleting those Articles in their entirety and replacing them with the following:
    - The Directors shall, from time to time, in accordance with the Ordinance, cause to be prepared and to be laid before its annual general meeting the relevant financial documents required by the Ordinance. The Directors may also cause to be prepared a summary financial report if they think fit, which may be provided to members and/or debenture holders instead of the relevant financial documents in circumstances permitted by the Ordinance, the Listing Rules and any other applicable laws, rules and regulations.
    - Subject to paragraph (C) below, a copy of the relevant financial documents or the summary financial report shall, not less than 21 days before the meeting, be delivered or sent by post to the registered address of every member and debenture holder of the Company, in the case of electronic communication, to the e-mail address of each member or debenture holder whose name stands first in the appropriate Register in respect of the joint holding. No accidental non-compliance with the provisions of this Article shall invalidate the proceedings at the meeting.
    - Where a member or debenture holder of the Company has, in accordance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations, consented to treat the publication of the relevant financial documents and/or the summary financial report on the Company's computer network as discharging the Company's obligation under the Ordinance to send a copy of the relevant financial documents and/or the summary financial report, then subject to compliance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations, publication by the Company on the Company's computer network of the relevant financial documents and/or the summary financial report at least 21 days before the date of the meeting shall, in relation to each such member or debenture holder of the Company, be deemed to discharge the company's obligations under paragraph (b) above.
  - For the purpose of Article 143, "relevant financial documents" and "summary financial report" shall have the meaning ascribed to them in the Ordinance";
  - In Articles 148 and 149 (relating to notices), by deleting those Articles in their entirety and replacing them with the following:
 

"148 Any notice or document to be given or issued under these Articles shall be in writing, except that any such notice or document to be given or issued by or on behalf of the Company under these Articles (including any "corporate communication" within the meaning ascribed thereto in the Listing Rules) shall be in writing or may be given or issued in a transitory form and may be recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form (including an electronic communication and publication on a computer network) whether having physical substance or not and may be served or delivered by the subject person or his agent or by any other person acting on his behalf, by and in accordance with the Ordinance, the Listing Rules and any other applicable laws, rules and regulations;

    - personally;
    - by sending it through the post in a properly prepaid letter, envelope or wrapper addressed to a member at his registered address as appearing in the Register or in the case of another entitled person, to such address as he may provide;
    - by delivering or leaving it at such address as aforesaid;
    - by advertisement in an English language newspaper and a Chinese language newspaper in Hong Kong in accordance with the Listing Rules;
    - by transmitting it as an electronic communication to the entitled person at such electronic address as he may have provided; or
    - by publishing it on a computer network. 149. Any notice or document (including any "corporate communication" within the meaning ascribed thereto in the Listing Rules) given or issued by or on behalf of the Company:
    - if sent by post, shall be deemed to have been served on the day following that on which the envelope or wrapper containing the same is put into a post office situated within Hong Kong and, in the case of electronic communication, shall be deemed to have been served on the day following that on which the notice or document was properly prepared, addressed and put into such post office; and
    - if not sent by post but delivered or left at a registered address by the Company, shall be deemed to have been served on the day it was so delivered or left;
    - if published by way of a newspaper advertisement, shall be deemed to have been served on the date on which it is advertised in one English language newspaper and one Chinese language newspaper in Hong Kong;
    - if sent as an electronic communication, shall be deemed to have been served at the time when the notice or document is transmitted electronically provided that no notification of the transmission has not been received by the sender, except that any failure in transmission beyond the sender's control shall not invalidate the effectiveness of the notice or document being served; and
    - if published on the Company's computer network, shall be deemed to have been served on the day on which the notice or document is published on the Company's computer network and the entitled person may have access.

149A. Subject to any applicable laws, rules and regulations, any notice or document, including but not limited to the documents referred to in Article 143 and any "corporate communication" within the meaning ascribed thereto in the Listing Rules, may be given in the English language only, in the Chinese language only or in both the English language and the Chinese language.

149B. For the purpose of Article 148 and 149, the expression "entitled person" shall have the meaning ascribed to it in the Ordinance.

149C. In Article 151 (relating to notices), by deleting the words "delivered" or "sent by mail to, or left at the registered address of, any member, in pursuance of these Articles," in the 1st and 2nd line of that Article and replacing them with the words "served in accordance with these Articles"; and

149D. In Article 153 (relating to notices), by deleting the words "written or printed" in that Article and replacing them with the words "written, typed, printed or made electronically";

And as Special Business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

##### 6. "THAT:

- subject to paragraphs (b) and (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.10 each in the market or otherwise, provided that the aggregate amount of such purchases shall not exceed such number of shares ("Shares") as will come into effect on 31 March 2004, Appendix 3 to the Listing Rules set out the stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange in accordance with all applicable laws including the Hong Kong Code on Share Repurchases and the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;

|  | Unaudited Pro Forma information<br>of the Combined Group<br>2003 |   | 2002              |   |
|--|--|---|-------------------|---|
|  | RMB<br>in million  | As<br>percentage<br>of total<br>revenue | RMB<br>in million | As<br>percentage<br>of total<br>revenue |
| Selling and marketing                      | (17,200)   | 23.8%                                   | (8,680)           | 16.8%                                   |
| General, administrative and other expenses | (9,071)  | 12.5%                                   | (7,123)           | 13.8%                                   |
| Cost of telecommunication products sold    | (3,652)  | 5.1%                                    | (4,061)           | 7.9%                                    |
| Total operating expenses                   | (31,923)   | 43.4%                                   | (29,864)          | 58.5%                                   |
| Operating profit                           | 10,431   | 14.4%                                   | 9,792             | 19.0%                                   |
| Finance costs                              | (2,156)  | 3.0%                                    | (2,375)           | 4.6%                                    |
| Other expenses, net                        | (30)   | 0.0%                                    | (146)             | 0.1%                                    |
| Taxation                                   | (2,473)  | 3.4%                                    | (1,923)           | 3.7%                                    |
| Minority interests                         | —  | —                                       | —                 | —                                       |
|  |  |   |                   |   |