



**CHINA UNICOM LIMITED** (Stock Code: 762)

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

**ANNOUNCEMENT**

**The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the first three quarters ended 30 September 2005.**

**GROUP RESULTS**

China Unicom Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the first three quarters ended 30 September 2005.

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT**

**For the nine months ended 30 September 2005**

|  | <i>Note</i>  | <b>Unaudited</b>                              |                    |
|--|--------------|---|--------------------|
|  |              | <b>For the nine months ended 30 September</b> |                    |
|  |              | <b>2005</b>                                   | <b>2004</b>        |
|  |              | <i>RMB'000</i>                                | <i>RMB'000</i>     |
|  |              |   | <i>As restated</i> |
| Revenue (Turnover):                        |              |   |                    |
| GSM Business                               | 1(ii)        | 38,837,090                                    | 35,766,290         |
| CDMA Business                              | 1(ii)        | 20,824,929                                    | 18,080,579         |
| Data and Internet Business                 |              | 2,363,735                                     | 2,760,407          |
| Long Distance Business                     |              | 1,221,355                                     | 1,263,428          |
| Total service revenue                      |              | 63,247,109                                    | 57,870,704         |
| Sales of telecommunications products       | 1(ii)        | 2,030,526                                     | 1,094,413          |
| Total revenue                              | 5            | <u>65,277,635</u>                             | <u>58,965,117</u>  |
| Leased lines and network capacities        |              | (6,647,441)                                   | (5,342,345)        |
| Interconnection charges                    |              | (6,302,666)                                   | (5,418,376)        |
| Depreciation and amortisation              | 1(i), 1(iii) | (15,075,603)                                  | (13,939,297)       |
| Personnel                                  | 1(iv)        | (3,985,166)                                   | (3,193,387)        |
| Selling and marketing                      | 1(ii)        | (15,583,210)                                  | (14,366,714)       |
| General, administrative and other expenses | 1(iii)       | (8,774,108)                                   | (8,071,793)        |
| Cost of telecommunications products sold   | 1(ii)        | (2,624,953)                                   | (1,531,315)        |
| Other income, net                          |              | 16,868  | 40,602             |
| Interest income                            |              | 60,059  | 65,928             |
| Finance costs                              | 2            | (834,861)                                     | (1,391,596)        |
| Profit before taxation                     |              | 5,526,554                                     | 5,816,824          |
| Taxation                                   | 1(ii)        | (1,730,126)                                   | (1,717,452)        |
| Profit attributable to shareholders        | 1            | <u>3,796,428</u>                              | <u>4,099,372</u>   |
| Basic earnings per share (RMB)             | 1, 3         | <u>0.302</u>                                  | <u>0.326</u>       |
| Diluted earnings per share (RMB)           | 1, 3         | <u>0.301</u>                                  | <u>0.324</u>       |

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**  
**As of 30 September 2005**

|                                      | <u>Note</u>   | <u>Unaudited</u><br><u>As of</u><br><u>30 September</u><br><u>2005</u><br><i>RMB'000</i> | <u>Audited</u><br><u>As of</u><br><u>31 December</u><br><u>2004</u><br><i>RMB'000</i><br><i>As restated</i> |
|--------------------------------------|---------------|--|---|
| <b>ASSETS</b>                        |               |  |   |
| <b>Non-current assets</b>            |               |  |   |
| Property, plant and equipment, net   | 1(iii)        | 114,563,524  | 118,492,120   |
| Goodwill                             | 1(i)          | 3,143,983  | 3,136,557   |
| Other assets                         | 1(ii), 1(iii) | 8,513,345  | 9,694,761   |
| Deferred tax assets                  | 1(ii)         | <u>845,673</u>   | <u>468,774</u>  |
|                                      |               | <u>127,066,525</u>   | <u>131,792,212</u>  |
| <b>Current assets</b>                |               |  |   |
| Amounts due from Unicom Group        |               | —  | 61,401  |
| Amounts due from related parties     |               | 147,032  | 193,048   |
| Amounts due from domestic carriers   |               | 140,443  | 269,919   |
| Prepayments and other current assets |               | 3,376,816  | 3,059,714   |
| Inventories                          |               | 2,192,080  | 3,114,632   |
| Accounts receivable, net             |               | 5,376,798  | 5,229,980   |
| Short-term bank deposits             |               | 612,640  | 662,025   |
| Bank balances and cash               |               | <u>8,137,760</u>   | <u>4,655,464</u>  |
|                                      |               | <u>19,983,569</u>  | <u>17,246,183</u>   |
| <b>Total assets</b>                  |               | <u>147,050,094</u>   | <u>149,038,395</u>  |
| <b>EQUITY AND LIABILITIES</b>        |               |  |   |
| <b>Shareholders' equity</b>          |               |  |   |
| Share capital                        |               | 1,333,546  | 1,332,487   |
| Share premium                        |               | 52,593,949   | 52,546,294  |
| Reserves                             | 1(iv)         | 2,352,775  | 2,259,295   |
| Retained profits                     |               |  |   |
| 2004 proposed final dividend         |               | —  | 1,256,349   |
| Others                               | 1             | <u>18,851,033</u>  | <u>15,047,816</u>   |
|                                      |               | 75,131,303   | 72,442,241  |
| <b>Minority interests</b>            |               | <u>2,500</u>   | <u>—</u>  |
|                                      |               | <u>75,133,803</u>  | <u>72,442,241</u>   |
| <b>Liabilities</b>                   |               |  |   |
| <b>Non-current liabilities</b>       |               |  |   |
| Long-term bank loans                 |               | 17,165,975   | 26,137,188  |
| Obligations under finance leases     |               | 149,771  | 488,956   |
| Deferred tax liabilities             |               | 6,042  | 3,262   |
| Deferred revenue                     | 1(ii)         | 3,547,200  | 3,840,493   |
| Other long-term liabilities          |               | <u>1,982</u>   | <u>2,578</u>  |
|                                      |               | <u>20,870,970</u>  | <u>30,472,477</u>   |

|   | <u>Unaudited</u>    | <u>Audited</u>     |
|---|---------------------|--------------------|
|   | As of               | As of              |
| <u>Note</u>   | <u>30 September</u> | <u>31 December</u> |
|   | <u>2005</u>         | <u>2004</u>        |
|   | <i>RMB'000</i>      | <i>RMB'000</i>     |
|   |                     | <i>As restated</i> |
| <b>Current liabilities</b>                          |                     |                    |
| Payables and accrued liabilities                    | 17,509,027          | 16,785,749         |
| Short-term bonds                                    | 4 9,798,850         | —                  |
| Amounts due to related parties                      | 275,934             | 5,760              |
| Amounts due to domestic carriers                    | 956,414             | 948,574            |
| Current portion of obligations under finance leases | 528,895             | 938,189            |
| Current portion of long-term bank loans             | 4,754,604           | 11,086,305         |
| Taxes payable                                       | 1,473,151           | 395,688            |
| Advances from customers                             | 7,281,710           | 7,034,995          |
| Short-term bank loans                               | 8,463,449           | 8,928,417          |
| Amounts due to Unicom Group                         | 3,287               | —                  |
|   | <u>51,045,321</u>   | <u>46,123,677</u>  |
| <b>Total liabilities</b>                            | <u>71,916,291</u>   | <u>76,596,154</u>  |
| <b>Total equity and liabilities</b>                 | <u>147,050,094</u>  | <u>149,038,395</u> |

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**For the nine months ended 30 September 2005**

|   | <u>Unaudited</u>   |                    |
|---|--------------------|--------------------|
|   | Nine months ended  |                    |
|   | 30 September       |                    |
| <u>Note</u>   | <u>2005</u>        | <u>2004</u>        |
|   | <i>RMB'000</i>     | <i>RMB'000</i>     |
| Net cash inflow from operating activities                     | 23,360,411         | 17,327,713         |
| Net cash outflow from investing activities                    | (12,846,511)       | (12,847,606)       |
| Net cash outflow from financing activities                    | <u>(7,005,693)</u> | <u>(8,140,724)</u> |
| Net increase/(decrease) in cash and cash equivalents          | 3,508,207          | (3,660,617)        |
| Cash and cash equivalents, beginning of period                | <u>4,629,553</u>   | <u>9,169,936</u>   |
| Cash and cash equivalents, end of period                      | <u>8,137,760</u>   | <u>5,509,319</u>   |
| <b>Analysis of the balances of cash and cash equivalents:</b> |                    |                    |
| Cash balances   | 7,087              | 4,868              |
| Bank balances   | 8,130,673          | 5,519,601          |
| Less: restricted bank deposit                                 | (i) —              | (15,150)           |
|   | <u>8,137,760</u>   | <u>5,509,319</u>   |

Note (i): As of 30 September 2005, no bank balance (31 December 2004: RMB26 million) was restricted by the bank to secure long-term bank loans.

## Notes (amounts expressed in RMB unless otherwise stated)

### 1. Principal activities and basis of presentation

China Unicom Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) on 8 February 2000. The principal activities of the Company are investment holding and the Company’s subsidiaries are engaged in the provision of GSM and CDMA cellular, data, Internet and long distance services in the PRC. The GSM and CDMA business is hereinafter collectively referred to as the “Cellular Business”. The Company and its subsidiaries are hereinafter referred to as the “Group”.

On 1 September 2005, China Unicom Corporation Limited (hereinafter referred to as “CUCL”, a direct wholly-owned subsidiary of the Company) combined with Unicom New World Telecommunications Corporation Limited (“Unicom New World”) and obtained the revised business license. After the combination, Unicom New World was legally dissolved and CUCL extended its Cellular Business in 30 provinces.

As of 30 September 2005, the current liabilities of the Group exceeded the current assets by approximately RMB31.1 billion. This was mainly attributable to the use of short-term bank deposits and short-term bonds to repay long-term bank loans. Taking into account of available financing facilities and continuous net cash inflows from operating activities, the Group has sufficient funds to meet its working capital requirements. As a result, the unaudited condensed consolidated interim accounts of the Group for the nine months ended 30 September 2005 have been prepared under the going concern basis.

The accounting policies used for the unaudited condensed consolidated accounts for the nine months ended 30 September 2005 are the same as those set out in Note 3 to the 2004 annual report except for the following changes as a result of the adoption of new Hong Kong Financial Reporting Standards (“new HKFRSs”).

#### *Adoption of new HKFRSs*

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”), herein collectively referred to as new HKFRSs, which are effective for accounting periods beginning on or after 1 January 2005. The Group adopted the new HKFRSs on 1 January 2005 and the above financial data included the impact upon adoption of these new HKFRSs. The 2004 comparatives have been restated as required, in accordance with relevant requirements.

The effect of adoption of certain new HKFRSs, which results in significant changes to the Group’s accounting policies, is set out below. For details of changes of accounting policies, please refer to Note 2 and Note 3 to the interim financial accounts for the six months ended 30 June 2005.

#### (i) *Goodwill / negative goodwill*

The adoption of HKFRS 3 “Business Combination”, HKAS 36 “Impairment of Assets” and HKAS 38 “Intangible assets” resulted in a change in the accounting policy for goodwill/negative goodwill. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2005, and goodwill is tested annually for impairment, as well as when there is indication of impairment.

Negative goodwill previously recognised has been derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings of the Group.

The adoption of HKFRS 3, HKAS 36, and HKAS 38 resulted in:

|   | <b>30 September 2005</b> |
|---|--------------------------|
|   | <i>RMB million</i>       |
| Increase in goodwill                            | 135                      |
| Increase in retained earnings                   | 7                        |
|   | <b>For the</b>           |
|   | <b>nine months ended</b> |
|   | <b>30 September 2005</b> |
|   | <i>RMB million</i>       |
| Decrease in depreciation and amortisation       | (128)                    |
| Increase in profit attributable to shareholders | 128                      |
| Increase in basic earnings per share (RMB)      | 0.010                    |
| Increase in diluted earnings per share (RMB)    | 0.010                    |

(ii) *Upfront non-refundable revenue and the direct incremental cost*

Upon the adoption of HKAS 18 “Revenue”, the Group changed its accounting policy for upfront non-refundable revenue and direct incremental cost. Effective from 1 January 2005, upfront non-refundable revenue and related direct incremental cost incurred are deferred and recognised over the expected customer service period. The expected customer service period for the Cellular Business is estimated based on the expected stabilised churn rates of subscribers. This change in accounting policy has been accounted for retrospectively and the relevant comparatives have been restated.

The adoption of revised HKAS 18 resulted in:

|  | <b>30 September</b>              | <b>31 December</b> |
|--|----------------------------------|--------------------|
|  | <b>2005</b>                      | <b>2004</b>        |
|  | <i>RMB million</i>               | <i>RMB million</i> |
| Increase in other assets                             | 3,356                            | 3,546              |
| Decrease in deferred tax assets                      | (44)                             | (74)               |
| Increase in deferred revenue                         | 3,547                            | 3,840              |
| Decrease in retained earnings                        | (368)                            | (564)              |
|  | <b>For the nine months ended</b> |                    |
|  | <b>30 September</b>              |                    |
|  | <b>2005</b>                      | <b>2004</b>        |
|  | <i>RMB million</i>               | <i>RMB million</i> |
| Increase/(decrease) in revenue                       | 293                              | (242)              |
| Increase in selling and marketing expenses           | 876                              | 469                |
| Decrease in costs of telecommunication products sold | (686)                            | (782)              |
| Decrease in taxation                                 | (30)                             | (76)               |
| Increase in profit attributable to shareholders      | 133                              | 147                |
| Increase in basic earnings per share (RMB)           | 0.011                            | 0.012              |
| Increase in diluted earnings per share (RMB)         | 0.011                            | 0.012              |

(iii) *Land use right*

The adoption of revised HKAS 17 “Lease” has resulted in the reclassification of leasehold land and land use rights from property, plant and equipment to other assets - long-term prepayment of lease. The upfront prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

The adoption of revised HKAS 17 resulted in:

|  | <b>30 September<br/>2005</b>                      | <b>31 December<br/>2004</b> |
|--|---|-----------------------------|
|  | <i>RMB million</i>                                | <i>RMB million</i>          |
| Decrease in property, plant and equipment              | (390)   | (412)                       |
| Increase in other assets                               | 390   | 412                         |
|  | <b>For the nine months ended<br/>30 September</b> |                             |
|  | <b>2005</b>                                       | <b>2004</b>                 |
|  | <i>RMB million</i>                                | <i>RMB million</i>          |
| Decrease in depreciation and amortisation              | (33)  | (38)                        |
| Increase in general, administrative and other expenses | 33  | 38                          |

(iv) *Share-based compensation*

The adoption of HKFRS 2 “Share-based Payment” has resulted in a change in the accounting policy for share-based compensation. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. As a transitional provision, the cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 2 resulted in:

|   | <b>30 September<br/>2005</b>                      | <b>31 December<br/>2004</b> |
|---|---|-----------------------------|
|   | <i>RMB million</i>                                | <i>RMB million</i>          |
| Increase in employee share-based compensation reserve | 204   | 111                         |
| Decrease in retained earnings                         | (111)   | (22)                        |
|   | <b>For the nine months ended<br/>30 September</b> |                             |
|   | <b>2005</b>                                       | <b>2004</b>                 |
|   | <i>RMB million</i>                                | <i>RMB million</i>          |
| Increase in personnel cost                            | 93  | 50                          |
| Decrease in profit attributable to shareholders       | (93)  | (50)                        |
| Decrease in basic earnings per share (RMB)            | (0.007)   | (0.004)                     |
| Decrease in diluted earnings per share (RMB)          | (0.007)   | (0.004)                     |

(v) *Related party transactions*

HKAS 24 “Related Party Disclosures” has extended the identification of related parties and disclosure of related parties to include state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government other than China United Telecommunications Corporation (“Unicom Group”), ultimate parent company, and its subsidiaries.

## 2. Finance costs

|                           | <i>Note</i> | <b>Unaudited</b>                              |                  |
|---------------------------|-------------|---|------------------|
|                           |             | <b>For the nine months ended 30 September</b> |                  |
|                           |             | <b>2005</b>                                   | <b>2004</b>      |
|                           |             | <i>RMB'000</i>                                | <i>RMB'000</i>   |
| Interest expenses         |             | 1,041,080                                     | 1,370,980        |
| Exchange (gain)/loss, net | (i)         | (239,901)                                     | 1,337            |
| Others                    |             | <u>33,682</u>                                 | <u>19,279</u>    |
|                           |             | <u>834,861</u>                                | <u>1,391,596</u> |

- (i) On 21 July 2005, the People's Bank of China adjusted the exchange rate of RMB to US dollars from 8.2765 to 8.1100. The exchange gain for the nine months ended 30 September 2005 mainly arose from revaluation of bank loans denominated in foreign currency using the prevailing exchange rate as of 30 September 2005.

## 3. Basic and diluted earnings per share

Basic earnings per share for the nine months ended 30 September 2005 and 2004 were computed by dividing the profit attributable to shareholders of approximately RMB3,796,428,000 and RMB4,099,372,000 (as restated) by the weighted average number of 12,569,263,025 shares and 12,560,693,822 shares during the periods respectively.

Diluted earnings per share for the nine months ended 30 September 2005 and 2004 were computed by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the periods, after adjusting for the effects of the dilutive potential ordinary shares. All potential dilutive ordinary shares arose from share options granted under (i) the amended Pre-Global Offering Share Option Scheme and (ii) the amended Share Option Scheme. For the nine months ended 30 September 2005 and 2004, all potential dilutive shares rose from share option granted under the amended Share Option Scheme, which if converted to ordinary shares would decrease profit attributable to the shareholders per share.

## 4. Short-term bonds

On 19 July 2005, CUCL completed an offering of the short-term bonds, consisting of two tranches, in the PRC interbank debenture market. The first tranche of the bonds were issued for the aggregate amount of RMB9.0 billion with a maturity period of 365 days. The second tranche of the bonds were issued for the aggregate amount of RMB1.0 billion with a maturity period of 180 days.

## 5. Related party transactions

For the nine months ended 30 September 2005, the Group incurred recurring related party transactions with Unicom Group and its subsidiaries of which approximately RMB191,868,000 (2004: approximately RMB171,937,000) were included in revenue and approximately RMB6,371,097,000 were included in expenses (2004: approximately RMB4,859,569,000).

## **FINANCIAL OUTLINE**

In pursuing our determined operational mission, insisting on the rational, practical and proactive strategies and the principle of effective development, the Company sustained the steady growth in its various business segments for the first three quarters of 2005.

### **Revenue**

In the first three quarters of 2005, the Company sustained a stabilized revenue stream. Total revenue was RMB65.28 billion, up by 10.7% from the same period last year. Of the total, service revenue was amounted to RMB63.25 billion, up by 9.3% from the same period last year.

GSM Cellular Business continued to develop steadily, service revenue from this business was RMB38.84 billion, up by 8.6% from the same period last year. For GSM business segment, the average minutes of usage per subscriber per month (“MOU”) were 198.7 minutes and the average revenue per subscriber per month (“ARPU”) was RMB48.9. CDMA Cellular Business continued to reflect an accelerating growth, its service revenue was RMB20.82 billion, an increase of 15.2% from the same period last year. The share of this business’s revenue to the total revenue from Cellular Business further rose to 34.9%, as compared to 33.6% recorded for the same period last year. For CDMA business segment, the MOU were 280.6 minutes and the ARPU was RMB77.0. The service revenue from Long Distance, Data and Internet was RMB3.59 billion, down 10.9% from the same period last year.

### **Expenses**

Total expenses for the first three quarters were RMB58.99 billion, up 13.7% from the same period last year. The Company continuously carried on the cost controls on cash payments so as to enhance the operational efficiency, particularly on selling and marketing expenses. The selling and marketing expenses for the first three quarters recorded an increase of 8.5% from the same period last year; however, such increase was lower than the rate of the increase in total revenue. A reduction of 11.1% was noted in selling and marketing expense in the third quarter compared with that incurred in the previous quarter this year. General, administrative and other expenses had a 8.7% increase compared with the same period last year. Bad debt ratio was reduced from 3.3% same period last year to 1.8% this period.

### **Profit attributable to shareholders**

The Company reported the net profit before taxation of RMB5.53 billion for the first three quarters, with a decline of 5.0% from the same period last year. Net profit before taxation from GSM Cellular Business was RMB5.90 billion, indicating a 6.4% increase from the same period last year; CDMA Cellular Business reported a loss of RMB 0.4 billion, after taking into account of RMB4.55 billion amortization expenses for handsets subsidizing costs. Net profits before taxation for CDMA Cellular Business for the respective quarters this year were -RMB0.29 billion in the first quarter, -RMB0.20 billion in the second quarter and RMB0.08 billion in the third quarter. Net profit before taxation from Long Distance, Data and Internet Business was RMB0.12 billion,

Net profit for the first three quarters of 2005 was RMB3.80 billion, declining 7.4% from the same period last year. The earnings were well performed quarter over quarter. Net profits for the respective quarters this year were RMB1.06 billion in the first quarter, RMB1.27 billion in the second quarter and RMB1.47 billion in the third quarter. The earnings per share for the first three quarters were RMB0.302.

EBITDA for the first three quarters of 2005 was RMB21.36 billion, up 1.5% from the same period last year. EBITDA margin was 32.7%. Adding back the leasing expenses incurred for CDMA network capacities, EBITDA margin was 41.9%. GSM Cellular Business's EBITDA margin was 50.1%. Long Distance, Data and Internet Business's EBITDA margin was 31.4%.

#### **CAUTION STATEMENT**

The Board wishes to remind investors that the financial statements and the financial outlines for the first three quarters ended 30 September 2005 are based on the Group's internal records and management accounts. The financial statements for the first three quarters ended 30 September 2005 have not been reviewed or audited by the auditors. The financial statements for the first three quarters ended 30 September 2004 are extracted from the unaudited financial statements already disclosed by the Group and has been restated, and the financial statements for the year ended 31 December 2004 are extracted from the audited financial statements as contained in the 2004 Annual Report and has been restated. **Investors are cautioned not to unduly rely on financial data, statistics and comparisons for the first three quarters ended 30 September 2005. In the meantime, investors are advised to exercise caution in dealing in the shares of the Company.**

#### **The Board of Directors of the Company comprises of:**

|   |   |
|---|---|
| Executive Directors:                    | Chang Xiaobing, Shang Bing, Tong Jilu, Li Qihong,<br>Lo Wing Yan, William and Ye Fengping |
| Non-executive Director:                 | Liu Yunjie  |
| Independent Non-executive<br>Directors: | Wu Jinglian, Shan Weijian and Cheung Wing Lam, Linus                                      |

By order of the Board  
**CHINA UNICOM LIMITED**  
**Yee Foo Hei**  
*Company Secretary*

27 October 2005, Hong Kong