

CHINA UNICOM LTD
Form 6-K
September 10, 2003

1934 Act Registration No. 1-15028

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

**Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the Month of September, 2003

China Unicom Limited

(Translation of registrant's name into English)

**No. 133A, Xidan North Street
Xicheng District
Beijing, China 100032**

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(1):)

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(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes

No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

EXHIBITS

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| 1.1 | Interim Report of 2003 of China Unicom Limited | 4 |

FORWARD-LOOKING STATEMENTS

The Interim Report of the Company, constituting Exhibits 1.1 to this Form 6-K, contain forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, the Company's operating strategy and future plans; its future business condition and financial results; its abilities to expand network capacity and increase network efficiency; its ability to develop new technology applications and offer new services; the execution of its CDMA related strategy; the Company's ability to leverage its position as an integrated telecommunications operator and expand into new business and new markets; future growth of market demand for the Company's services; and future regulatory and other developments in the Chinese telecommunications industry.

Such forward-looking statements reflect the current views of the Company with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory policies of the Ministry of Information Industry and other relevant government authorities; the effects of competition on the demand and price of the Company's telecommunications services; any changes in telecommunications and related technology and applications based on such technology; and changes in political, economic, legal and social conditions in China including the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. Please also see the "Risk Factors" section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA UNICOM LIMITED
(Registrant)

Date: 10 September 2003

By: /s/ Lo Wing Yan, William
 Lo Wing Yan, William
 Executive Director

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Forward-looking statement

The company would like to caution readers about the forward-looking nature of some of the statements in this interim report. These forward-looking statements are subject to various risks and uncertainties of which are beyond our control, including future changes in our competitive and regulatory environment, future growth rates of the Chinese economy and its telecommunications industry, changes in telecommunications-related technologies and applications and other factors that will affect the successful execution of our business plans and strategies.

Chairman's Statement

I am pleased to report the operating and financial results of China Unicom Limited (referred to as the Company) and its subsidiaries (together referred to as the Group) for the first six months of 2003.

I. Financial Overview

The Group is pleased with its financial performance in the first half of 2003. Total operating revenue for the period was RMB 31.97 billion, up 77.7% from the same period last year, of which service revenue was RMB 30.65 billion, an increase of 80.8% as compared with the same period last year. Revenue from the cellular business amounted to RMB 28.36 billion, an increase of 106.0% over the same period last year while its share in the total revenue increased to 88.7% compared with 76.5% for the same period last year. With regard to the revenue derived from the cellular business, revenue from GSM cellular service amounted to RMB 20.52 billion, an increase of 54.1% over the same period last year; revenue from CDMA cellular service totaled RMB 7.84 billion, an increase of 16.3 times over the same period last year. Revenue from long distance, data and Internet businesses reached RMB 2.68 billion, up 10.4% compared with the same period last year and its share in the total revenue decreased from 13.5% for the same period last year to 8.4%. Revenue from wireless paging business declined 48.2% to RMB 0.93 billion, while its share in the total revenue fell from 10.0% for the same period last year to 2.9%.

In the first six months of 2003, the Group's EBITDA reached RMB 12.46 billion, up 41.8% over the same period last year. EBITDA margin dropped from 48.8% for the same period last year to 39.0%, of which EBITDA for GSM cellular service was RMB 11.5 billion, up 55.6% over the same period last year and EBITDA margin rose from 55.5% of the same period last year to 56.0%. Operating profit reached RMB 4.28 billion, up 24.5% over the same period last year. Profit before taxation was RMB 3.35 billion, up 12.4% over the same period last year. Profit before taxation from GSM cellular service was RMB 4.01 billion; profit before taxation from the long distance, data and Internet businesses was RMB 0.84 billion; loss before taxation from wireless paging business was RMB 0.89 billion (which includes RMB 0.56 billion provision for impairment loss and loss on disposal of wireless paging assets); loss before taxation from CDMA cellular service was RMB 0.59 billion. After making provision of RMB 0.56 billion for the impairment loss and loss on disposal of wireless paging business assets, net profit was RMB 2.39 billion, rose 11.6% compared with the same period last year. Earnings per share was RMB 0.190, up 11.6% compared with the same period last year.

In the first six months of 2003, the Group's capital expenditure was RMB 8.14 billion. The Group has continued to maintain a solid and healthy balance sheet. Total assets reached RMB 141.2 billion and debt to capitalization ratio fell from 44.6% as at the end of the previous year to 41.0%.

On December 31, 2002, the Company completed its acquisition of Unicom New Century (BVI) Limited. On a pro forma combined basis, the Group's total revenue for the first half of 2003 increased 46.2% from the same period last year; EBITDA increased by 14.8% over the same period last year, of which EBITDA for the GSM cellular business increased 18.6% from the same period last year; net profit increased by 5.1% from the same period last year.

II. Business Development

During the first six months of 2003, faced with intensifying market competition and the challenges posed by the SARS outbreak, the Company continued to achieve satisfactory development in its businesses, through the establishment of a high quality networks, and the strengthening of sales and marketing and customer service in accordance with the Company's development strategies.

1. Continuation of the coordinated development of the GSM and CDMA businesses, preliminary success with the transformation of the sales model for the CDMA business and the accelerated introduction of new businesses helped maintain the rapid development of the cellular business.

During the first six months of 2003, subscriber growth for both networks remained steady. The Group recorded a net addition of 9.931 million GSM and CDMA cellular subscribers. As of June 30, 2003, the Group had a total of 69.641 million GSM and CDMA cellular subscribers. The Group's market share in its service areas increased from 33.1% at the end of 2002 to 34.2% and its share of the new subscriber additions market was 41.5%.

As of June 30, 2003, on a pro forma combined basis, the total number of GSM cellular subscribers was 59.663 million, representing an increase of 6.198 million from 53.465 million at the end of 2002, of which post-paid subscribers accounted for 31.654 million; pre-paid subscribers accounted for 28.009 million and the proportion of pre-paid subscribers to the total number of subscribers rose from 44.4% at the end of 2002 to 46.9%. Following the increase in the number of subscribers, total usage volume for GSM cellular subscribers reached 57.45 billion minutes, representing a 40.1% increase from the same period last year. For the first six months of 2003, the average minutes of usage per user per month (MOU) for GSM services was 168.7 minutes, up 3.2 minutes from 165.5 minutes in 2002, of which, the MOU for post-paid subscribers was 221.6 minutes, whilst the MOU for pre-paid subscribers was 106.1 minutes. Average revenue per user per month (ARPU) was RMB 58.9, representing a decline of RMB 8.4 from RMB 67.3 in 2002. ARPU for post-paid subscribers was RMB 68.4, whilst ARPU for pre-paid subscribers was RMB 47.6.

As of June 30, 2003, on a pro forma combined basis, the number of CDMA cellular subscribers was 9.978 million, representing an increase of 3.733 million subscribers from 6.245 million subscribers at the end of 2002. Total usage volume for CDMA subscribers reached 16.94 billion minutes, representing an increase of 17 times over the same period last year. For the first six months of 2003, the MOU for CDMA services was 349.5 minutes, up 21.4 minutes from 328.1 minutes in 2002. ARPU was RMB 148.7, representing a decline of RMB 23.5 from RMB 172.2 in 2002.

Uniformly branded as U-Max, the Company introduced various wireless data services on its CDMA 1X technology, namely U-Info, U-Mail, U-Net, U-Magic and U-Map. The Company also offered SMS service for subscribers under the brand name UNI-INFO. Short voice message service was also launched. For the first six months of 2003, the usage volume of SMS from GSM and CDMA cellular subscribers reached 11.70 billion messages. Incoming SMS received by GSM and CDMA subscribers from other operators reached 2.68 billion messages. As of June 30, 2003, over 600,000 subscribers were using CDMA 1X data services.

2. *International and domestic long distance, data and Internet businesses developed rapidly*

In the first six months of 2003, total minutes of outgoing international and domestic long distance calls reached 8.68 billion minutes, up 52.0% from the same period last year. Market share increased from 11.6% at the end of 2002 to 13.2%. The total minutes of PSTN outgoing long distance calls accounted for 3.39 billion minutes, representing an increase of 16.5% from the same period of last year. Market share increased from 11.5% to 12.3%. The total minutes of IP outgoing long distance calls reached 5.28 billion minutes, representing an increase of 88.6% from the same period last year. Market share increased from 11.7% to 13.9%. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan was 860 million minutes, representing an increase of 36.5% from the same period last year.

As of June 30, 2003, the total bandwidth leased for our leased line business was 15,602 x 2Mbps. The total bandwidth leased for asynchronous transfer mode (ATM) and frame relay (FR) data carrier operations amounted to 4,797 x 2Mbps. The Company was the first in the PRC to provide UNI-VIDEO video conference service, as well as video phone service by applying IP technology and the subscriber number for these services was 2,227. As of June 30, 2003, Internet subscribers increased from 7.292 million in 2002 to 9.754 million, representing an increase of 33.8%. Of this total, the number of dedicated line subscribers amounted to 37,000, whilst the number of dial-up subscribers was 9.717 million. In addition, Internet data center (IDC), virtual private network (VPN), virtual private dial-up network (VPDN), Ruyi mailbox and other e-commerce businesses also developed rapidly.

3. *Actively pursued the transformation of the paging business*

On the basis of its traditional wireless paging business, the Company introduced the Unicom Paging Information Service to offer a variety of information services to its subscribers. With the launch of services such as Cellular-paging Bundled Service and Unicom Assistant, the Company integrated its wireless paging information and mobile SMS businesses. Apart from voice services, the Company fully utilized its paging resources, and provided value-added services such as Operator-assisted SMS and Secretarial Service through Operator to our existing cellular subscribers to provide differentiated services. As of June 30, 2003, the number of wireless paging subscribers was 13.025 million, representing a decrease of 4.657 million subscribers or 26.3% from 17.682 million subscribers at the end of 2002. However, the subscribers for Unicom Assistant increased significantly to 15.18 million. ARPU for wireless paging subscribers was RMB 7.9.

4. *Further strengthened network construction and steadily increasing the quality of communications*

The nationwide optical fiber transmission network provided a guarantee in terms of network resources for the rapid development of the Company's businesses. The Company has placed emphasis on the expansion of its integrated business, and has established a unified network platform for its voice, data, Internet and video broadcasting businesses in the PRC. As of June 30, 2003, the optical fiber transmission network has expanded to 522,000 km in length, of which the total length of the nationwide optical fiber backbone transmission network reached 113,000 km. Following completion of the Phase Two Construction Project for the CDMA business, the network has been upgraded to CDMA 1X, further enhancing communication quality. The Company has devoted significant effort to building a high-quality cellular network and establishing scientific network quality maintenance standards in order to improve the operation and maintenance technologies and quality of its cellular networks.

5. *Enhanced sales and marketing activities to facilitate the rapid growth of various businesses*

The Company also placed emphasis on the research of customers' needs. Through the creation of renowned brands, such as Unicom New Horizon, U-Max, Ruyi Tong, Ruyi 133, UNI-INFO and UNI-VIDEO, the Company fully capitalized on the advantages of being an integrated telecommunication services operator. By applying the differentiated advantages on its businesses, technologies and services, we offer bundled services of GSM and CDMA cellular service, international and domestic long distance service, data, Internet and paging services, bundled services of basic and value-added services, as well as bundled services of voice and data services, and offer flexible packages to win customers. The industry value chain, comprising handset manufacturers, distributors and content providers, will be further strengthened. The model for the CDMA business was transformed from handset subsidies to acquisition of handsets at the cost of the subscriber. Sales channels were switched from the proprietary ones to those formed by external parties. A nationwide sales network was established and constituted by the established sales offices of the Company, cooperative joint ventures, and licensed retail outlets. There are now 57,302 sales outlets throughout our network. The Company has further strengthened the establishment of the UNI-CRM customer relationship management system, and improved the service standards of the nationally centralized 1001 customer service hotline. Through the establishment of the Unicom Subscriber Club, customer satisfaction levels have also been raised.

III. Business Outlook

We believe that the demand in the telecommunications market will remain strong through the second half of the year. This in turn will introduce more opportunities for the continuous growth of the Group's businesses. By leveraging on the Group's high quality cellular network and service standards, we expect the Group's market share in terms of revenue from the PRC telecommunication market to further increase. We will continue to implement business development strategies and objectives of the Company, to further increase the economic efficiency of the Company.

With respect to cellular services, the Group will continue to sustain the coordinated development of both the GSM network and CDMA network. The network resources available for the GSM business will be fully capitalized. Steady growth of the business will be sustained by retaining existing subscribers and acquiring new subscribers through the strengthening of SMS services, development of new initiatives on GSM services and customer care activities. Our parent company is now implementing the phase three construction project for the CDMA network, which aims at expanding the CDMA network coverage as well as indoor coverage, increasing wireless data capacity and optimizing network quality. These measures are expected to significantly enhance the quality of the CDMA network. The Company will capitalize on the advantages of U-Max, to accelerate the development of mid to high-end customers, and will also actively promote its branding activities and the launch of Ruyi 133 pre-paid services to expand the market share of CDMA New Horizon.

With respect to long distance, data and Internet businesses, the Group will continue to capitalize on the technological advantages of its unified network platform and introduce new business initiatives to increase business revenue and market share. The data business will be adopted as part of our integrated businesses and marketing and promotion efforts will be devoted to broadband video conference and video phone services. Parallel with the rapid growth of Internet business, emphasis will be placed on the promotion of feature services, such as Ruyi mailbox, to actively promote e-commerce applications and develop the Unicom Internet Plaza broadband Internet model with other third parties.

With respect to our wireless paging business, the Group will continue to reduce the operating cost through the bundling of wireless paging businesses with other business of the Group, and will seek to transform the wireless paging business to call center business by offering value-added services such as Unicom Assistant , Unicom Paging Information Services , and telemarketing.

The Company plans to acquire the GSM cellular assets and cellular businesses of the ten unlisted provincial branches from the parent company at the appropriate time, in order to become a national cellular service operator. The Company also plans to sell the wireless paging business to the parent company at the appropriate time, in order to optimize the Company's assets portfolio. When the opportunity arises, the Company intends to utilize lower cost of funding in the international capital market, to minimize finance costs of the Company.

I am confident that through the concerted endeavors of the management and all staff, we will achieve even better results.

The Board of Directors resolved that no interim dividend be declared for 2003, and has the intention to pay annual dividend for the year when 2003 annual results are announced.

Finally, on behalf of the Board of Directors, I would like to express my sincere gratitude for the care and support from shareholders and the public at large, in particular, Mr. Yang Xian Zu, for his outstanding contribution to the Company during his tenure as the Chairman and Chief Executive Officer of the Company. I would also like to extend my gratitude to both the management team and all the staff of the Company for their hard work and diligence.

Wang Jianzhou
Chairman and Chief Executive Officer

Hong Kong, August 28, 2003

Unaudited Condensed Consolidated Interim Accounts
 Unaudited Condensed Consolidated Income Statement
 For the six months ended 30 June 2003
 (Expressed in thousands of Renminbi (RMB), except per share data)

| | Note | 2003 | Unaudited Six months ended 30 June As restated 2002 (Note 2) |
|--|----------------------|---------------------|--|
| Operating Revenue (Turnover): | | | |
| GSM Business | 3, 28, 30 | 20,041,009 | 12,938,301 |
| CDMA Business | 3, 16(a), 19, 28, 30 | 7,207,722 | 354,030 |
| Data and Internet Business | 3, 28, 30 | 1,576,865 | 1,308,984 |
| Long Distance Business | 3, 28, 30 | 1,095,777 | 1,115,102 |
| Paging Business | 3, 28, 30 | 726,932 | 1,231,021 |
| Total service revenue | | 30,648,305 | 16,947,438 |
| Sales of telecommunications products | 3, 28, 30 | 1,318,939 | 1,043,406 |
| Total operating revenue | 3, 30 | 31,967,244 | 17,990,844 |
| Operating expenses: | | | |
| Leased lines and network capacities | 4, 28 | (1,952,209) | (736,960) |
| Interconnection charges | 28, 29 | (2,577,430) | (1,268,184) |
| Depreciation and amortisation | 4 | (8,179,435) | (5,347,998) |
| Personnel | 4, 9, 10 | (2,224,348) | (1,409,262) |
| Selling and marketing | 4, 16(a), 19, 28 | (6,737,895) | (2,089,966) |
| General, administrative and other expenses | 4, 5, 28 | (4,589,162) | (2,535,536) |
| Cost of telecommunications products sold | 28 | (1,428,650) | (1,167,509) |
| Total operating expenses | | (27,689,129) | (14,555,415) |
| Operating profit | | 4,278,115 | 3,435,429 |
| Interest income | 4 | 104,909 | 266,658 |
| Finance costs | 6 | (1,019,344) | (761,267) |
| Other (expense) income, net | 7 | (9,985) | 42,158 |
| Profit before taxation | 4 | 3,353,695 | 2,982,978 |
| Taxation | 2, 8 | (966,170) | (843,434) |
| Profit after taxation | | 2,387,525 | 2,139,544 |
| Minority interests | | (2,252) | (2,789) |
| Profit attributable to shareholders | | 2,385,273 | 2,136,755 |

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| | | | |
|----------------------------------|----|-------|-------|
| Basic earnings per share (RMB) | 12 | 0.190 | 0.170 |
| Diluted earnings per share (RMB) | 12 | 0.190 | 0.170 |

Unaudited Condensed Consolidated Balance Sheet
As of 30 June 2003
(Expressed in thousands of RMB)

| | Note | Unaudited 30 June 2003 | Audited As restated 31 December 2002 (Note 2) |
|---|-----------|------------------------------|---|
| Non-current assets: | | | |
| Property, plant and equipment, net | 17 | 107,481,576 | 107,486,629 |
| Goodwill | 2, 18 | 2,227,631 | 2,285,771 |
| Other assets | 19 | 6,763,480 | 7,018,223 |
| Deferred tax assets | 2, 8 | 825,274 | 826,568 |
| Investment securities | 20 | 102,945 | 105,648 |
| Investment in associated companies | 21 | 3,814 | 3,814 |
| Total non-current assets | | 117,404,720 | 117,726,653 |
| Current assets: | | | |
| Current portion of deferred tax assets | 2, 8 | 1,116,638 | 988,666 |
| Amounts due from related parties | 28(b) | 1,066,184 | 1,137,847 |
| Amounts due from domestic carriers | 29(b) | 273,560 | 211,462 |
| Prepayments and other current assets | 16 | 2,985,515 | 2,573,764 |
| Inventories | 15 | 1,876,635 | 3,229,903 |
| Accounts receivable, net | 14 | 4,365,538 | 4,327,268 |
| Trading securities | 13 | 201,132 | 173,939 |
| Short-term bank deposits | | 1,704,767 | 4,825,205 |
| Cash and cash equivalents | | 10,209,178 | 14,433,498 |
| Total current assets | | 23,799,147 | 31,901,552 |
| Current liabilities: | | | |
| Dividend payable | | 11,217 | 8,448 |
| Payables and accrued liabilities | 22 | 16,633,270 | 19,811,961 |
| Amounts due to Unicom Group | 28(b) | 699,281 | 562,633 |
| Amounts due to related parties | 28(b) | 884,457 | 409,663 |
| Amounts due to domestic carriers | 29(b) | 1,166,698 | 1,123,580 |
| Current portion of obligations under finance leases | 25, 29(b) | 21,114 | 16,793 |
| Current portion of long-term bank loans | 24 | 6,355,286 | 5,459,505 |
| Taxes payable | | 1,210,025 | 1,106,006 |
| Advances from customers | | 5,563,085 | 6,240,225 |
| Short-term loans from Unicom Group | 28(c) | | 724,127 |
| Short-term bank loans | 23 | 10,065,366 | 9,146,500 |
| Total current liabilities | | 42,609,799 | 44,609,441 |

| | | |
|--|--------------|--------------|
| Net current liabilities | (18,810,652) | (12,707,889) |
| Total assets less current liabilities | 98,594,068 | 105,018,764 |

| | Note | Unaudited 30 June 2003 | Audited As restated 31 December 2002 (Note 2) |
|----------------------------------|-----------|------------------------------|---|
| Financed by: | | | |
| Shareholders equity: | | | |
| Share capital | 26 | 1,331,371 | 1,331,371 |
| Share premium | | 52,482,127 | 52,482,127 |
| Reserves | 11(b) | 1,300,065 | 1,300,065 |
| Retained profits: | | | |
| 2002 proposed final dividend | 11(a) | | 1,255,300 |
| Others | | 12,668,945 | 10,283,672 |
| Shareholders equity | | 67,782,508 | 66,652,535 |
| Minority interests | | 564,008 | 566,257 |
| Non-current liabilities: | | | |
| Long-term bank loans | 24 | 30,137,212 | 37,686,162 |
| Obligations under finance leases | 25, 29(b) | 100,511 | 101,302 |
| Other long-term liabilities | | 9,829 | 12,508 |
| Total non-current liabilities | | 30,247,552 | 37,799,972 |
| | | 98,594,068 | 105,018,764 |

Unaudited Condensed Consolidated Statement of
Changes in Equity
For the six months ended 30 June 2003
(Expressed in thousands of RMB)

| | Share capital | Share premium | Unaudited Revaluation reserve | Unaudited Statutory reserve | Retained profits | Total |
|---|---------------|---------------|-------------------------------------|-----------------------------------|---------------------|-------------|
| Balance at 1 January 2003, as previously reported | 1,331,371 | 52,482,127 | 176,853 | 1,082,682 | 11,174,202 | 66,247,235 |
| Change in accounting policy: | | | | | | |
| - Additional provision for deferred tax assets (Note 2) | | | | | 405,300 | 405,300 |
| - To adjust for statutory reserve due to the change in accounting policy (Note 11(b)) | | | | 40,530 | (40,530) | |
| Balance at 1 January 2003, as restated | 1,331,371 | 52,482,127 | 176,853 | 1,123,212 | 11,538,972 | 66,652,535 |
| Profit for the period | | | | | 2,385,273 | 2,385,273 |
| Dividends (Note 11(a)) | | | | | (1,255,300) | (1,255,300) |
| Balance at 30 June 2003 | 1,331,371 | 52,482,127 | 176,853 | 1,123,212 | 12,668,945 | 67,782,508 |

| | Share capital | Share premium | Unaudited Revaluation reserve | Unaudited Statutory reserve | Retained profits | Total |
|---|---------------|---------------|-------------------------------------|-----------------------------------|---------------------|------------|
| Balance at 1 January 2002, as previously reported | 1,331,371 | 52,482,127 | 176,853 | 649,433 | 7,041,379 | 61,681,163 |
| Change in accounting policy: | | | | | | |
| - Additional provision for deferred tax assets (Note 2) | | | | | 373,159 | 373,159 |
| - To adjust for statutory reserve due to the change in accounting policy (Note 11(b)) | | | | 37,316 | (37,316) | |
| | 1,331,371 | 52,482,127 | 176,853 | 686,749 | 7,377,222 | 62,054,322 |

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| | | | | | | | |
|--|-----------|------------|---------|---------|-----------|--|------------|
| Balance at 1 January 2002, as restated | | | | | | | |
| Profit for the period | | | | | 2,136,755 | | 2,136,755 |
| Balance at 30 June 2002 | 1,331,371 | 52,482,127 | 176,853 | 686,749 | 9,513,977 | | 64,191,077 |

Unaudited Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2003
(Expressed in thousands of RMB)

| | Note | Unaudited Six months ended 30 June | |
|---|------|---------------------------------------|--------------|
| | | 2003 | 2002 |
| Net cash inflow from operations | (a) | 13,425,596 | 7,926,090 |
| Interest received | | 125,200 | 411,743 |
| Interest paid | | (1,348,929) | (997,141) |
| Dividends received | | 2,531 | 5,981 |
| Dividends paid to minority owners of subsidiaries | | (1,732) | (3,295) |
| PRC income tax paid | | (899,729) | (588,474) |
| Net cash inflow from operating activities | | 11,302,937 | 6,754,904 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (10,744,473) | (9,995,704) |
| Sale of property, plant and equipment | | 8,049 | 8,699 |
| Purchase of minority interests | | | (36,739) |
| Decrease in short-term bank deposits | | 3,120,438 | 16,584,182 |
| Payment of acquisition cost of Unicom New Century | | (42,029) | |
| Purchase of trading securities | | (83,857) | (8,376) |
| Sale of trading securities | | 79,055 | 4,469 |
| Sale of investment securities | | 6,048 | 3,835 |
| Purchase of other assets | | (156,758) | (61,657) |
| Net cash (outflow) inflow from investing activities | | (7,813,527) | 6,498,709 |
| Financing activities | | | |
| Decrease of payables to Unicom Group | | (724,127) | (339,800) |
| Proceeds from short-term bank loans | | 4,793,366 | 2,433,646 |
| Proceeds from long-term bank loans | | 3,505,447 | 2,273,457 |
| Repayment of short-term bank loans | | (3,874,500) | (4,547,125) |
| Repayment of long-term bank loans | | (10,158,616) | (15,731,329) |
| 2002 final dividends paid (Note 11(a)) | | (1,255,300) | |
| Net cash outflow from financing activities | | (7,713,730) | (15,911,151) |
| Net decrease in cash and cash equivalents | | (4,224,320) | (2,657,538) |
| Cash and cash equivalents, beginning of period | | 14,433,498 | 18,413,010 |
| Cash and cash equivalents, end of period | | 10,209,178 | 15,755,472 |

Analysis of the balances of cash and cash equivalents:

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| | | |
|--------------|------------|------------|
| Cash balance | 5,547 | 5,515 |
| Bank balance | 10,203,631 | 15,749,957 |
| | 10,209,178 | 15,755,472 |

(a) The reconciliation of profit before taxation to net cash inflow from operations is as follows:

| | Unaudited | |
|---|---------------------------------|-------------|
| | Six months ended 30 June | |
| | 2003 | 2002 |
| Profit before taxation | 3,353,695 | 2,982,978 |
| Adjustments for: | | |
| Depreciation and amortisation | 8,179,435 | 5,347,998 |
| Amortisation of deferred customer acquisition costs of contractual CDMA subscribers | 3,104,225 | 65,796 |
| Interest income | (104,909) | (266,658) |
| Interest expense | 1,004,362 | 734,991 |
| Loss on disposal of property, plant and equipment | 46,011 | 70,241 |
| Provision for impairment of property, plant and equipment | 535,068 | |
| Provision for doubtful debts | 854,954 | 526,752 |
| Share of losses from associated companies | | 1,312 |
| Dividends from investment securities | (2,531) | (5,981) |
| Realised gains on trading securities | (7,902) | (1,569) |
| Unrealised gains on trading securities | (14,489) | (15,117) |
| Realised gains on investment securities | (3,345) | (385) |
| Reversal of impairment loss of associated companies | | (5,663) |
| Provision of impairment loss of investment securities | | 650 |
| Operating profit before working capital changes | 16,944,574 | 9,435,345 |
| Increase in accounts receivable | (893,224) | (988,413) |
| Decrease/(increase) in inventories | 1,353,268 | (276,362) |
| Increase in other assets | (2,539,986) | (586,182) |
| Increase in prepayments and other current assets | (864,649) | (533,798) |
| (Increase)/decrease in amounts due from domestic carriers | (62,098) | 53,538 |
| Decrease in amounts due from related parties | 71,663 | 483,611 |
| Decrease in payables and accrued liabilities | (561,372) | (466,487) |
| (Decrease)/increase in advances from customers | (677,140) | 358,395 |
| Increase in amounts due to domestic carriers | 43,118 | 58,293 |
| Increase in amounts due to related parties | 611,442 | 388,150 |
| Net cash inflow from operations | 13,425,596 | 7,926,090 |

(b) Supplemental information:

Payables to equipment suppliers for construction-in-progress during the six months ended 30 June 2003 decreased by approximately RMB2,603 million (2002: RMB1,023 million).

Notes to the Unaudited Condensed
Consolidated Interim Accounts
(Amounts expressed in RMB unless otherwise stated)

1. PRINCIPAL ACTIVITIES

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, long distance and paging services in the PRC. The Company and its subsidiaries are hereinafter referred to as the Group .

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (SSAP) 25, Interim Financial Reporting issued by the Hong Kong Society of Accountants (HKSA). The condensed consolidated interim accounts are unaudited but have been reviewed by the Audit Committee of the Company.

The unaudited condensed consolidated interim accounts include the financial information of the Company and its subsidiaries. These condensed consolidated interim accounts should be read in conjunction with the 2002 annual report. The details of the Company's subsidiaries are set out in Note 23 to the audited financial statements included in its 2002 annual report.

In 2002, the Company acquired the entire interests of Unicom New Century Telecommunications Corporation Limited (a limited liability company established in the PRC, hereinafter referred to as Unicom New Century), from its ultimate parent company, China United Telecommunications Corporation (a state-owned enterprise established in the PRC, hereinafter referred to as Unicom Group). For details of this acquisition, see Note 31 to this interim accounts. The Company has adopted the purchase method of accounting for this acquisition, and the identifiable assets and liabilities acquired were recorded based on their respective fair values as of 31 December 2002. The excess of the purchase consideration over the fair value of the net assets acquired has been recorded as goodwill, which is amortised using the straight-line method over a period of 20 years. The effective date of this acquisition was 31 December 2002, accordingly, the operating results of Unicom New Century have been included in the condensed consolidated income statement of the Group for the six months ended 30 June 2003. Details of the acquisition have already been set forth in the shareholder's circular Connected Transactions and Renewal of Waiver for Existing Connected Transactions of the Company issued on 29 November 2002 and the Company's 2002 annual report.

The accounting policies adopted in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual report for the year ended 31 December 2002 except the Group has changed its accounting policies following the adoption of SSAP 35

Government Grants and Disclosure of Government Assistance and SSAP 12 Income Taxes issued by the HKSA, which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

Upon the adoption of SSAP 12 *Income Taxes* in 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Prior to 2003, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the income statement. A deferred tax asset was not recognised unless the related benefits are expected to crystallise in the foreseeable future. The adoption of the new SSAP 12 in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the unaudited condensed consolidated statement of changes in equity, the change in the accounting policy has resulted in an increase of opening retained profits as of 1 January 2003 and 2002 by approximately RMB405,300,000 and RMB373,159,000, respectively, which represented the deferred tax assets relating to the provision for doubtful debts previously not recognised. This change has resulted in an increase in deferred tax assets at 1 January 2003 by approximately RMB405,300,000. The profit for the six months ended 30 June 2002 has also been reduced by approximately RMB114,775,000.

In addition, the adoption of SSAP 12 also resulted in an increase of the deferred tax assets of Unicom 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 Unicom New Century on 31 December 2002 accordingly.

Since the impact of the adoption of the SSAP 35 *Government Grants and Disclosure of Government Assistance* on the Group's financial statements is not significant, no prior period adjustment has been required.

3. OPERATING REVENUE

Operating revenue primarily comprises 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 (MII) and the provincial regulatory authorities.

Operating revenue is net of business tax and government surcharges.

4. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and crediting the following:

| | Note | Unaudited Six months ended 30 June | |
|---|-------|---------------------------------------|-----------------|
| | | 2003 RMB 000 | 2002 RMB 000 |
| After charging/(crediting): | | | |
| Share of losses from associated companies | 7 | | 1,312 |
| Dividends from investment securities | 7 | (2,531) | (5,981) |
| Realised gains on trading securities | 7 | (7,902) | (1,569) |
| Unrealised gains on trading securities | 7 | (14,489) | (15,117) |
| Realised gains on investment securities | 7 | (3,345) | (385) |
| Interest income | | (104,909) | (266,658) |
| Interest expense: | 6 | 1,295,232 | 972,277 |
| Less: amounts capitalised in construction-in-progress | 6 | (290,870) | (237,286) |
| Total interest expenses | 6 | 1,004,362 | 734,991 |
| Depreciation: | | | |
| - Assets held under finance leases | 17 | 6,077 | 4,844 |
| - Other assets | | 7,842,294 | 5,080,057 |
| Total depreciation | 17 | 7,848,371 | 5,084,901 |
| Amortisation of goodwill | 18 | 58,140 | 22,409 |
| Amortisation of deferred customer acquisition costs of contractual CDMA subscribers | 16(a) | 3,104,225 | 65,796 |
| Other amortisation | 19 | 272,924 | 240,688 |
| Total amortisation of other assets | | 3,377,149 | 306,484 |
| Loss on disposal of property, plant and equipment | 5 | 46,011 | 70,241 |

| | Note | Unaudited | |
|--|-------|--------------------------|-----------|
| | | Six months ended 30 June | |
| | | 2003 | 2002 |
| | | RMB 000 | RMB 000 |
| After charging/(crediting): | | | |
| Operating lease expense: | | | |
| - Leased lines | | 403,716 | 368,289 |
| - CDMA network capacities | 28(a) | 1,548,493 | 368,671 |
| - Other leasing expense | 5 | 412,747 | 272,131 |
| Total operating lease expense | | 2,364,956 | 1,009,091 |
| Provision (write-back) for doubtful debts: | | | |
| - GSM Business | | 628,731 | 472,342 |
| - CDMA Business | | 160,417 | 5,850 |
| - Data and Internet Business | | 31,873 | 26,571 |
| - Long Distance Business | | 26,944 | 22,312 |
| - Paging Business | | 6,989 | (323) |
| Total provision for doubtful debts | 5 | 854,954 | 526,752 |
| Cost of inventories | | 1,401,982 | 1,127,242 |
| Write-down of inventories to net realisable value | | 25,308 | 2,821 |
| (Reversal of) provision for impairment in value of investments in: | | | |
| - Associated companies | 21 | | (5,663) |
| - Investment securities | 20 | | 650 |
| Total provision for impairment in investments | | | (5,013) |
| Personnel: | | | |
| - Salaries and wages | | 1,738,736 | 996,198 |
| - Contributions to defined contribution pension schemes | 9 | 151,245 | 88,733 |
| - Special monetary housing benefits | 10 | 90,724 | 170,570 |
| - Contributions to other housing fund | | 81,421 | 50,148 |
| - Other housing benefits | | 162,222 | 103,613 |
| Total personnel | | 2,224,348 | 1,409,262 |
| Additional provision for impairment of property, plant and equipment | 5, 17 | 535,068 | |
| Net exchange (gains) losses | 7 | (1,015) | 21,018 |

5. **GENERAL, ADMINISTRATIVE AND OTHER EXPENSES**

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------|
| | 2003 | 2002 |
| | RMB 000 | RMB 000 |
| Operating lease rental expenses | 412,747 | 272,131 |
| Repair and maintenance expenses | 608,690 | 280,095 |
| Provision for doubtful debts | 854,954 | 526,752 |
| Loss on disposal of property, plant and equipment | 46,011 | 70,241 |
| Provisions for impairment of property, plant and equipment: | | |
| - Paging business (Note 17) | 528,038 | |
| - Others | 7,030 | |
| Traveling, entertainment and meeting expenses | 500,769 | 136,486 |
| Power and water charges | 512,686 | 291,757 |
| Office expenses | 460,587 | 294,124 |
| Other | 657,650 | 663,950 |
| | 4,589,162 | 2,535,536 |

6. **FINANCE COSTS**

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------|
| | 2003 | 2002 |
| | RMB 000 | RMB 000 |
| Interest on bank loans repayable over 5 years | 25,754 | |
| Interest on bank loans repayable within 5 years | 1,269,478 | 972,277 |
| Less: Amounts capitalised in construction-in-progress | (290,870) | (237,286) |
| Total interest expenses | 1,004,362 | 734,991 |
| Bank charges | 14,982 | 26,276 |
| | 1,019,344 | 761,267 |

7. **OTHER EXPENSES (INCOME), NET**

Unaudited
Six months ended 30 June

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| | 2003 RMB 000 | 2002 RMB 000 |
|---|-----------------|-----------------|
| Share of losses from associated companies | | 1,312 |
| Dividends from investment securities | (2,531) | (5,981) |
| Realised gains on trading securities | (7,902) | (1,569) |
| Unrealised gains on trading securities | (14,489) | (15,117) |
| Realised gains on investment securities | (3,345) | (385) |
| (Gains) losses from exchange difference | (1,015) | 21,018 |
| Other | 39,267 | (41,436) |
| | 9,985 | (42,158) |

8. TAXATION

Provision for taxation represents:

| | Note | Unaudited | |
|---|------|--------------------------|-------------|
| | | Six months ended 30 June | |
| | | 2003 | As restated |
| | | RMB 000 | 2002 |
| | | | RMB 000 |
| | | | (Note 2) |
| Provision for PRC enterprise income tax on the estimated taxable profits for the period | | 1,092,848 | 337,395 |
| Deferred taxation | 2 | (126,678) | 506,039 |
| | | 966,170 | 843,434 |

There is no Hong Kong profits tax liability as the Group did not have any assessable income sourced from Hong Kong for the six months ended 30 June 2003 and 2002.

The income tax liabilities of the Group were assessed as follows:

- (a) The tax liabilities of China Unicom Corporation Limited (the Company's principal subsidiary in the PRC, hereinafter referred to as CUCL) and its wholly-owned subsidiaries for the six months ended 30 June 2003 and 2002 were assessed in accordance with FIE (Foreign Investment Enterprises) taxation requirements and on a consolidated basis as a single entity and settled income tax liabilities centrally in Beijing as approved by the tax authority;
- (b) The tax liabilities of Unicom New Century for the six months ended 30 June 2003 was assessed in accordance with FIE taxation requirements on a consolidated basis as a single entity; and
- (c) Various provincial branches/municipal cities of CUCL and Unicom New Century were granted a preferential treatment by tax authorities to assess their enterprise income tax at a rate of 15%. The remaining provincial branches were assessed at a tax rate of 33%.

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

| | Unaudited | |
|---|---------------------------------|-------------|
| | Six months ended 30 June | |
| | 2003 | 2002 |
| PRC | | |
| Statutory tax rate of 33% | 33.0% | 33.0% |
| Non-deductible expenses | 0.4 | 3.5 |
| Effect of preferential tax rates | (4.7) | (4.6) |
| Investment tax credits (Note (a)) | | (2.0) |
| Effective PRC income tax rate | 28.7% | 29.9% |
| Hong Kong | | |
| Statutory tax rate of 17.5% (2002: 16.0%) | 17.5% | 16.0% |
| Non-taxable income: | | |
| - Interest income | (17.5) | (16.0) |
| Effective HK income tax rate | | |
| Total overall effective income tax rate | 28.8% | 28.3% |

Tax effect of preferential tax rate is as follows:

| | Unaudited | |
|------------------------------------|---------------------------------|-------------|
| | Six months ended 30 June | |
| | 2003 | 2002 |
| Aggregate amount (RMB in millions) | 157.9 | 129.6 |
| Per share effect (RMB) | 0.013 | 0.010 |

Notes:

(a) For the six months ended 30 June 2002, investment tax credits represented the tax credits relating to the additions of certain domestic equipment that were deductible against current income tax having obtained the tax approvals.

The movement of the deferred tax assets is as follows:

| | Note | Unaudited Six months ended 30 June 2003 RMB 000 | Audited As restated Year 2002 RMB 000 (Note 2) |
|---|------|--|--|
| Balance, beginning of period | | 1,815,234 | 1,581,408 |
| Acquisition of Unicom New Century | | | 307,623 |
| Deferred taxation credited/ (charged) to income statement | | 126,678 | (559,545) |
| Change in accounting policy: | | | |
| - Recognition of additional deferred tax assets in relation to provision for doubtful debts | 2 | | 485,748 |
| Balance, end of period | | 1,941,912 | 1,815,234 |

Deferred taxation as of period-end represented the taxation effect of the following temporary differences:

| | Unaudited 30 June 2003 RMB 000 | Audited As restated 31 December 2002 RMB 000 (Note 2) |
|--|--------------------------------------|---|
| Deferred tax assets: | | |
| Interest on loans from CCF joint ventures | 235,859 | 287,998 |
| Loss arising from terminations of CCF Arrangements | 286,943 | 309,813 |
| Income tax on advances from customers for telephone cards | 319,725 | 471,657 |
| Provision for impairment loss for property, plant and equipment | 294,781 | 112,994 |
| Provision for impairment loss for goodwill and difference in amortisation period | 35,925 | 40,498 |
| Provision for doubtful debts of Paging Business | 16,740 | 38,673 |
| Provision for doubtful debts of Cellular Business | 718,310 | 485,748 |
| Write-off of other assets to income statement | 12,178 | 17,662 |
| Write-down of inventories to net realizable value | 39,675 | 31,260 |
| Amortisation of retirement benefits | 37,654 | 37,379 |
| Additional depreciation deductible for tax purpose | 124,596 | 171,091 |
| Differences on tax basis for the residual value of property, plant and equipment | 34,696 | 19,634 |
| Other | 91,020 | 68,152 |
| | 2,248,102 | 2,092,559 |

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Deferred tax liabilities:

| | | |
|---|-------------|-----------|
| Accelerated depreciation for tax purpose | (56,920) | (76,468) |
| Capitalised interest already deducted for tax purpose | (249,270) | (200,857) |
| | (306,190) | (277,325) |
| Net deferred tax assets | 1,941,912 | 1,815,234 |
| Less: Current portion of deferred tax assets | (1,116,638) | (988,666) |
| | 825,274 | 826,568 |

9. RETIREMENT BENEFITS

All the full time employees of the Group are covered by a state-sponsored pension scheme under which the employees are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make defined contributions to the pension scheme at the rate of 19% for the six months ended 30 June 2003 (2002: 19%) of the employees' basic salaries. Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions. For the six months ended 30 June 2003, accrued retirement benefit contributions amounted to approximately RMB151,245,000 (2002: RMB88,733,000).

10. HOUSING BENEFITS

In 2001, the Group finalised its monetary housing benefit scheme as a special employee incentive scheme for all qualified employees.

For the six months ended 30 June 2003 and 2002, certain provinces were expected to achieve the annual performance budget and thus were approved by management to distribute and pay out such monetary housing benefits. The provision for special monetary housing benefits for qualified employees of these provinces for the six months ended 30 June 2003 and 2002 amounted to approximately RMB90,724,000 and RMB170,570,000 respectively. The remaining provinces have not accrued for these special monetary housing benefits since they are not expected to achieve their annual performance budget in 2003 and accordingly no provision for such benefits was made.

11. DISTRIBUTION OF PROFITS ATTRIBUTABLE TO SHAREHOLDERS

(a) At the annual general meeting held on 12 May 2003, the shareholders of the Company approved the payment of final dividend of RMB0.10 per ordinary share for the year ended 31 December 2002 totalling RMB1,255,299,607 (2002: Nil) which has been reflected as an appropriation of retained profits for the six months ended 30 June 2003. As of 30 June 2003, such dividends have been fully paid by the Company.

(b) As stated in Note 2, the change in accounting policy on income taxes has resulted in an increase of distributable reserves to shareholders of CUCL for the year ended 31 December 2002 and 2001 respectively. As result, CUCL appropriated additional statutory reserves amounting to approximately RMB40,530,000 in 2003 (2002: RMB37,316,000).

(c) During the six months ended 30 June 2003, the Group has not made any appropriation to reserves or declared any dividends to the shareholders (2002: Nil).

12. EARNINGS PER SHARE

Basic earnings per share for the six months ended 30 June 2003 and 2002 were computed by dividing the profit attributable to shareholders of approximately RMB2,385,273,000 and RMB2,136,755,000 (restated) respectively, by the weighted average number of 12,552,996,070 ordinary shares in issue during the periods.

Diluted earnings per share for the six months ended 30 June 2003 and 2002 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 potential dilutive ordinary shares. 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 (see Note 27).

There was no dilution of earnings per share for both periods after taking into account the dilutive effect of the share options. For the six months ended 30 June 2003, anti-dilutive shares arising from the share options of approximately 60,735,000 shares (2002: 33,841,000 shares) were not included in the calculation of diluted earnings per share.

13. TRADING SECURITIES

Trading securities represented listed equity securities in the PRC, which are carried at fair value. The realised gains on trading securities for the six months ended 30 June 2003 amounted to approximately RMB7,902,000 (2002: RMB1,569,000) and the unrealised gains amounted to RMB14,489,000 (2002: RMB15,117,000). There have been no significant changes in the fair values of the listed securities after the balance sheet date.

14. ACCOUNTS RECEIVABLE, NET

| | Unaudited | Audited |
|---|---------------------|-------------------------|
| | 30 June 2003 | 31 December 2002 |
| | RMB 000 | RMB 000 |
| Accounts receivable for GSM services | 4,403,567 | 3,920,821 |
| Accounts receivable for CDMA services | 1,253,657 | 1,004,754 |
| Accounts receivable for Data and Internet services | 522,445 | 410,479 |
| Accounts receivable for Long Distance services | 496,867 | 543,838 |
| Accounts receivable for Paging services | 176,742 | 181,348 |
| Sub-total | 6,853,278 | 6,061,240 |
| Less: Provision for doubtful debts for GSM services | (2,005,538) | (1,466,803) |

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| | | |
|---|-----------|-----------|
| Provision for doubtful debts for CDMA services | (223,194) | (62,821) |
| Provision for doubtful debts for Data and Internet services | (130,902) | (99,214) |
| Provision for doubtful debts for Long Distance services | (87,022) | (60,176) |
| Provision for doubtful debts for Paging Business | (41,084) | (44,958) |
| | 4,365,538 | 4,327,268 |

The aging analysis of accounts receivable was as follows:

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|----------------------------------|---|---|
| Not yet due within credit period | 3,211,353 | 2,818,296 |
| Due within three months | 1,407,029 | 1,311,930 |
| Three months to six months | 434,464 | 464,750 |
| Six months to one year | 498,961 | 769,718 |
| More than one year | 1,301,471 | 696,546 |
| | 6,853,278 | 6,061,240 |

The normal credit period granted by the Group is on average 30 days from the date of invoice.

Provision for doubtful debts was analysed as follows:

| | Unaudited 30 June 2003 RMB 000 | Audited Year 2002 RMB 000 |
|-----------------------------------|---|--|
| Balance, beginning of period | 1,733,972 | 1,005,937 |
| Provision for the period | 854,954 | 971,989 |
| Acquisition of Unicom New Century | | 327,936 |
| Written-off for the period | (101,186) | (571,890) |
| Balance, end of period | 2,487,740 | 1,733,972 |

15. INVENTORIES

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|-----------------|---|---|
| Handsets | 864,657 | 2,357,577 |
| Telephone cards | 801,223 | 672,728 |
| Pagers | 64,655 | 77,134 |
| Other | 146,100 | 122,464 |

1,876,635

3,229,903

16. PREPAYMENTS AND OTHER CURRENT ASSETS

| | Note | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|---|------|--------------------------------------|--|
| Prepaid rental | | 169,202 | 85,185 |
| Deposits and prepayments | | 1,552,503 | 1,069,939 |
| Interest receivable | | 17,489 | 37,780 |
| Advances to employees | | 157,044 | 106,749 |
| Deferred customer acquisition costs of certain contractual CDMA subscribers | (a) | 491,742 | 508,596 |
| Other | | 597,535 | 765,515 |
| | | 2,985,515 | 2,573,764 |

The aging analysis of prepayments and other current assets was as follows:

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|-----------------|--------------------------------------|--|
| Within one year | 2,641,105 | 2,227,594 |
| Over one year | 344,410 | 346,170 |
| | 2,985,515 | 2,573,764 |

Notes:

(a) As part of the arrangement with certain CDMA contractual subscribers under special promotion packages, CDMA mobile phone handsets were provided to certain subscribers for their use at no additional cost during specified contract periods ranging from 6 months to 2 years.

Under the terms of these contracts, subscribers are required to spend a minimum amount of service fees during the contract period. In addition, to secure future performance, these subscribers are also required to (i) prepay service fees or deposits, (ii) maintain a restricted bank deposits in a designated commercial banks to secure the minimum contract amount, or (iii) provide the Group with a guarantor who will compensate the Group for any loss upon their non-performance. The costs of CDMA handsets under the above contractual arrangements are treated as deferred customer acquisition costs, to the extent recoverable based on management periodic assessment, and are amortised over the contractual period (not exceeding 2 years) to match with the Group's minimum contract revenue.

For the six months ended 30 June 2003, amortisation of these deferred customer acquisition costs amounted to approximately RMB3,104 million (2002: RMB66 million), which was recorded in selling and marketing expenses. As of 30 June 2003, the carrying amount of unamortised deferred customer acquisition costs totaled approximately RMB5,733 million, with approximately RMB492 million (2002: RMB509 million) recorded in prepayment and other current assets (for contract period within 1 year) and with approximately RMB5,241 million (2002: RMB5,474 million) recorded in other assets (for contract period over 1 year) (See Note 19).

As of 30 June 2003, the carrying amount of prepaid service fees and deposits obtained by the Group under the above contracts amounted to RMB2,190 million (2002: RMB2,775 million).

17. **PROPERTY, PLANT AND EQUIPMENT, NET**

| | Unaudited | | | | | Audited | |
|--|-------------------------------|------------------------------|---------------------------------------|------------------------|--------------------------|-------------|-------------|
| | Six months ended 30 June 2003 | | | | | Year 2002 | |
| | Land use rights and buildings | Telecommunications equipment | Office furniture, fixtures and others | Leasehold improvements | Construction-in-progress | Total | Total |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Cost or valuation: | | | | | | | |
| Beginning of period | 10,355,012 | 102,924,638 | 4,671,149 | 947,561 | 19,419,349 | 138,317,709 | 96,074,270 |
| Additions | 42,769 | 111,645 | 68,482 | 8,717 | 8,200,833 | 8,432,446 | 19,365,121 |
| Acquisition of Unicom New Century | | | | | | | 23,330,775 |
| Transfer from CIP | 718,729 | 4,858,452 | 349,987 | 14,421 | (5,941,589) | | |
| Disposals | (11,267) | (300,631) | (168,007) | (17,152) | | (497,057) | (452,457) |
| End of period | 11,105,243 | 107,594,104 | 4,921,611 | 953,547 | 21,678,593 | 146,253,098 | 138,317,709 |
| Representing: | | | | | | | |
| At cost | 8,402,163 | 107,594,104 | 4,921,611 | 953,547 | 21,678,593 | 143,550,018 | 135,614,629 |
| At valuation | 2,703,080 | | | | | 2,703,080 | 2,703,080 |
| | 11,105,243 | 107,594,104 | 4,921,611 | 953,547 | 21,678,593 | 146,253,098 | 138,317,709 |
| Accumulated depreciation and impairment: | | | | | | | |
| Beginning of period | 1,067,005 | 27,665,564 | 1,667,089 | 416,875 | 14,547 | 30,831,080 | 20,325,835 |
| Charge for the period | 270,534 | 7,091,988 | 406,273 | 79,576 | | 7,848,371 | 10,850,681 |
| Impairment losses | | 526,030 | | | 9,038 | 535,068 | |
| Disposals | (1,098) | (270,951) | (153,796) | (17,152) | | (442,997) | (345,436) |
| End of period | 1,336,441 | 35,012,631 | 1,919,566 | 479,299 | 23,585 | 38,771,522 | 30,831,080 |
| Net book value: | | | | | | | |
| End of period | 9,768,802 | 72,581,473 | 3,002,045 | 474,248 | 21,655,008 | 107,481,576 | 107,486,629 |
| Beginning of year | 9,288,007 | 75,259,074 | 3,004,060 | 530,686 | 19,404,802 | 107,486,629 | 75,748,435 |

There was no property, plant and equipment pledged to banks as loan security as of 30 June 2003 (2002: Nil).

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As of 30 June 2003, prepayments for property, plant and equipment to be used in construction amounting to approximately RMB2,491 million (2002: RMB4,164 million) have been included in construction-in-progress.

For the six months ended 30 June 2003, interest of approximately RMB291 million (2002: RMB237 million) was capitalised to construction-in-progress.

As of 30 June 2003, the cost or valuation of land use rights (located in the PRC) and the accumulated depreciation amounted to approximately RMB473 million and RMB84 million respectively (2002: RMB348 million and RMB77 million).

Land use rights and buildings of the Group as of 31 March 2000 were valued by Sallmanns (Far East) Ltd., registered property valuers in Hong Kong, using the replacement cost or open market value approach, as appropriate. The resulting revaluation surplus and deficit amounted to RMB177 million and RMB28 million, respectively. The additional depreciation attributable to the revaluation surplus amounted to approximately RMB4.4 million for the six months ended 30 June 2003 (2002: RMB4.4 million). The revaluation deficit was charged to the income statement during the year ended 31 December 2000. As of 30 June 2003, for these land use right and buildings stated at revalued amounts, their carrying amount would have been approximately RMB1,979 million (2002: RMB2,032 million) had they been carried at cost less accumulated depreciation.

As of 30 June 2003, net book value of telecommunications equipment held under finance leases amounted to approximately RMB153 million (2002: RMB159 million).

Impairment of assets for the Paging Business:

Management conducts an impairment assessment at each balance sheet date to identify whether the carrying values of the property, plant and equipment may be impaired. In 2003, the Group conducted such re-assessment of the recoverable amount of the paging assets based on the best estimates of the discounted net future cash flows expected to be generated from the Paging Business in the future years. Management has made key assumptions and estimations on the appropriate discount rate adopted (8% per annum), the period covered by the cash flow forecast, the impact of the continuous decline of traditional paging business, the future loss of subscribers, the expected trend in average revenue per subscriber, as well as incremental cash flows arising from new paging businesses and the effects of the adoption of cost reduction plans. All these assumptions and estimations are made based on historical trends adjusted for the current market situation (including physical conditions of these assets) and the forecast of the future development of new value-added paging businesses.

Based on the updated analysis and the worsening trend of the decline of the traditional paging business in the first half of 2003, despite the continuous growth of new value-added paging businesses, the Group expected that the related incremental future cash inflows to be generated from these new paging services could unlikely offset the effects of the rapid decline of the traditional paging business in future. Consequently, based on the latest estimate of the discounted future net cash flows expected to arise from the continuing operations of the Paging Business, after considering the unexpected rapid decline of the traditional paging business in the first half of 2003, the Group concluded that the carrying amount of paging assets as of 30 June 2003 had exceeded their expected recoverable amounts. Accordingly, the Group has recorded an additional impairment loss for property, plant and equipment of the Paging Business amounting to approximately RMB528 million for the six months ended 30 June 2003 (2002: Nil). As of 30 June 2003, the balance of provision for impairment loss for the property, plant and equipment of Paging Business amounted to RMB1,001 million (2002: RMB473 million).

In addition, the Group has also recognised losses on disposal of property, plant and equipment of approximately RMB46 million for the six months ended 30 June 2003 (2002: RMB70 million).

18. GOODWILL

| | Unaudited 30 June 2003 RMB 000 | Audited As restated 31 December 2002 RMB 000 (Note 2) |
|--|---|---|
| Cost | 525,431 | 525,431 |
| Goodwill arising from acquisition of the Unicom New Century (Note 2) | 2,284,749 | 2,284,749 |
| | 2,810,180 | 2,810,180 |
| Less: Accumulated amortisation | (379,852) | (321,712) |
| Impairment losses | (202,697) | (202,697) |
| | 2,227,631 | 2,285,771 |

In 2002, goodwill arising from the acquisition represented the excess of costs of investment in Unicom New Century of RMB4,909 million over the fair value of the net assets acquired amounting to RMB2,624 million as of 31 December 2002. Such goodwill is amortised over 20 years on a straight-line method based on the estimated economic beneficial period.

Prior to 2002, goodwill represented the excess of purchase consideration over the fair values of the separately identifiable assets acquired by Guoxin Paging Corporation Ltd. (a subsidiary of the CUCL, Guoxin) for (i) certain local Paging Businesses during its restructuring in 1998 and (ii) minority interests in the provincial subsidiaries of Guoxin.

The amortisation charge of goodwill for the six months ended 30 June 2003 amounted to approximately RMB58,140,000 (2002: RMB22,409,000).

19. OTHER ASSETS

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|--------------------------------|--------------------------------------|--|
| Interconnection facilities | 538,521 | 568,099 |
| Prepaid rental and leased line | 1,473,665 | 1,405,431 |
| Other | 951,667 | 869,558 |

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| | | | |
|---|--------------|-------------|-------------|
| | | 2,963,853 | 2,843,088 |
| Less: Accumulated amortisation | | (1,441,407) | (1,299,029) |
| | | 1,522,446 | 1,544,059 |
| Deferred customer acquisition costs of certain contractual CDMA subscribers | <i>16(a)</i> | 5,241,034 | 5,474,164 |
| | | 6,763,480 | 7,018,223 |

Amortisation of other assets, excluding deferred customer acquisition costs, for the six months ended 30 June 2003 amounted to approximately RMB272,924,000 (2002: RMB174,892,000).

20. INVESTMENT SECURITIES

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|--|---|---|
| Unlisted equity securities in the PRC, at cost | 109,160 | 111,863 |
| Less: Provision for impairment in losses | (6,215) | (6,215) |
| | 102,945 | 105,648 |

21. INVESTMENT IN ASSOCIATED COMPANIES

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|--|---|---|
| Cost | 41,656 | 37,036 |
| Share of net assets | (16,618) | (11,998) |
| | 25,038 | 25,038 |
| Less: Provision for impairment in losses | (21,224) | (21,224) |
| | 3,814 | 3,814 |

Full provision for impairment of investment in certain associated companies was made in 2001 when the Group judged that the recoverable amount of these investments would be minimal based on the estimated discounted future net cash flows of the investments. In view of the persistent poor operating results of these associated companies, management concluded that the impairments had not been temporary.

22. PAYABLES AND ACCRUED LIABILITIES

| Note | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|---|---|---|
| Payables to contractors and equipment suppliers | 11,101,008 | 13,703,912 |
| Accrued expenses | 1,346,939 | 1,139,645 |
| Payables to telecommunications products suppliers | 1,600,194 | 2,395,928 |

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| | | | |
|-----------------------------|-----|------------|------------|
| Customer deposits | | 926,246 | 784,156 |
| Salary and welfare payables | | 941,402 | 775,668 |
| Other | (a) | 717,481 | 1,012,652 |
| | | 16,633,270 | 19,811,961 |

Note:

(a) Other includes miscellaneous accruals for housing fund and other government surcharges.

The aging analysis of payables and accrued liabilities was as follows:

| | Unaudited | Audited |
|------------------------|---------------------|-------------------------|
| | 30 June 2003 | 31 December 2002 |
| | RMB 000 | RMB 000 |
| Less than six months | 9,956,876 | 14,887,342 |
| Six months to one year | 4,029,460 | 2,521,886 |
| More than one year | 2,646,934 | 2,402,733 |
| | 16,633,270 | 19,811,961 |

23. SHORT-TERM BANK LOANS

Interest rates on short-term bank loans ranged from 4.54% to 5.31% per annum for the six months ended 31 June 2003 (2002: 4.54% to 5.56% per annum).

As of 30 June 2003, short-term bank loans of approximately RMB90 million (2002: RMB463 million) were guaranteed by Unicom Group.

As of 30 June 2003, short-term bank loans of approximately RMB209 million (2002: RMB209 million) were secured by the future service fee revenue to be generated by the cellular operations.

24. LONG-TERM BANK LOANS

| | Interest rate and final maturity | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|---------------------------------|---|--------------------------------------|--|
| Renminbi denominated bank loans | Fixed interest rate ranging from 4.78% to 6.03% (2002: 4.54% to 6.24% per annum with maturity through 2008 (2002: maturity through 2008)) | | |
| - secured | | 15,805,222 | 24,627,646 |
| - unsecured | | 20,687,276 | 18,518,021 |
| | | 36,492,498 | 43,145,667 |

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

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|--|--------------------------------------|--|
| Balances due: | | |
| - not later than one year | 6,355,286 | 5,459,505 |
| - later than one year and not later than two years | 13,148,556 | 4,825,581 |
| - later than two years and not later than five years | 16,661,016 | 32,581,222 |
| Thereafter | 327,640 | 279,359 |

| | | |
|---|-------------|-------------|
| | 36,492,498 | 43,145,667 |
| Less: Portion classified as current liabilities | (6,355,286) | (5,459,505) |
| | 30,137,212 | 37,686,162 |

As of 30 June 2003, long-term bank loans were secured by the following:

- (i) approximately RMB15,485 million (2002: RMB24,308 million) of long-term bank loans were secured by the future service fee revenue to be generated by the cellular operations of the relevant branches and RMB2,515 million (2002: RMB3,471 million) of which was also guaranteed by Unicom Group;
- (ii) approximately RMB320 million (2002: RMB320 million) of long-term bank loans were secured by certain bank accounts of the Group; and
- (iii) in addition to the above, approximately RMB7,862 million (2002: RMB9,164 million) of long-term bank loans above were guaranteed by Unicom Group.

25. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases were analysed as follows:

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|---|---|---|
| Total minimum lease payments under finance leases repayable: | | |
| - not later than one year | 21,605 | 17,284 |
| - later than one year and not later than five years | 34,659 | 34,659 |
| - later than five years | 150,074 | 154,395 |
| | 206,338 | 206,338 |
| Less: Future finance charges | (84,713) | (88,243) |
| Present value of minimum obligations | 121,625 | 118,095 |
| Representing obligations under finance leases: | | |
| - current liabilities | 21,114 | 16,793 |
| - non-current liabilities | 100,511 | 101,302 |
| | 121,625 | 118,095 |
| | 121,625 | 118,095 |
| The present value of obligations under finance leases: | | |
| - not later than one year | 21,114 | 16,793 |
| - later than one year and not later than five years | 28,224 | 28,224 |
| - later than five years | 72,287 | 73,078 |
| | 121,625 | 118,095 |
| | 121,625 | 118,095 |
| Less: Portion classified as current liabilities | (21,114) | (16,793) |
| | 100,511 | 101,302 |
| | 100,511 | 101,302 |

Interest rate of obligations under finance leases is at 6% per annum.

26. SHARE CAPITAL

| | Unaudited 30 June 2003 HK\$ 000 | Audited 31 December 2002 HK\$ 000 |
|---|---------------------------------------|---|
| Authorised: | | |
| 30,000,000,000 ordinary shares of HK\$ 0.1 each | 3,000,000 | 3,000,000 |

| | Unaudited 30 June 2003 HK\$ 000 | RMB equivalent RMB 000 | Number of shares (000) | Audited 31 December 2002 HK\$ 000 | RMB equivalent RMB 000 |
|------------------------|---------------------------------------|------------------------------|-------------------------------|---|------------------------------|
| Issued and fully paid: | | | | | |
| Unicom BVI | 972,500 | 1,030,850 | 9,725,000 | 972,500 | 1,030,850 |
| Public investors | 282,799 | 300,521 | 2,827,996 | 282,799 | 300,521 |
| | 12,552,996 | 1,331,371 | 12,552,996 | 1,255,299 | 1,331,371 |

27. SHARE OPTION SCHEME

The Company adopted a share option scheme (the Share Option Scheme) and a fixed award pre-global offering share scheme (Pre-Global Offering Share Option Scheme) on 1 June 2000 for the granting of share options to qualified employees, with terms amended on 13 May 2002 to comply with the requirements set out in the New Chapter 17 of the Listing Rules.

As of 30 June 2003, information of outstanding options were summarised as follows:

| Date of options granted | The period during which an option may be exercised | The price per share to be paid on exercise of options | Number of options outstanding as of 30 June 2003 |
|--|---|--|--|
| Options granted under the Share Option Scheme: | | | |
| 30 June 2001 | 30 June 2001 to 21 June 2010 | HK\$ 15.42 | 6,508,000 |
| 2 August 2002 | 10 July 2003 to 9 July 2008 | HK\$ 6.18 | 34,642,800 |

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| | | | | |
|--|---------------------------------|------|-------|-------------|
| 21 May 2003 (Note (a)) | 21 May 2004 to 20 May 2009 | HK\$ | 4.30 | 105,590,000 |
| 30 May 2003 (Note (a)) | 21 May 2004 to 20 May 2009 | HK\$ | 4.66 | 366,000 |
| Options granted under the Pre-Global Offering Share Option Scheme: | | | | |
| 22 June 2000 | 22 June 2002 to 21 June 2010 | HK\$ | 15.42 | 25,436,600 |
| | | | | 172,543,400 |

Note (a):

According to resolutions passed by the Board of Directors and the Independent Non-Executive Directors of the Company dated 21 May 2003 and 30 May 2003, a total of 105,590,000 share options and 366,000 share options were granted to eligible individuals (including directors, independent non-executive directors, non-executive directors, middle to senior management of the Group) respectively, under the amended Share Option Scheme in the following terms:

- (i) an aggregate of 3,298,000 options were granted to the executive directors, non-executive directors and independent non-executive directors of the Company;
- (ii) the exercise price per share option was HK\$4.30 and HK\$4.66 respectively; and
- (iii) the period during which an option may be exercised commences from the date of offer but no later than 6 years from the date of the offer date with the following portions:

| Periods | Portions |
|----------------------------|----------|
| 21 May 2004 to 20 May 2009 | 40% |
| 21 May 2005 to 20 May 2009 | 30% |
| 21 May 2006 to 20 May 2009 | 30% |

No options have been exercised since the date of grant under the amended Share Option Scheme and the amended Pre-Global Offering Share Option Scheme and up to the date when the Board of Directors approved this condensed interim accounts.

28. RELATED PARTY TRANSACTIONS

The table set forth below summarises the name of significant related parties and nature of relationship with the Company as of 30 June 2003:

| Name of related parties | Nature of relationship with the Company |
|--|---|
| China United Telecommunications Corporation (Unicom Group) | Ultimate parent company |
| Unicom NewSpace Co., Ltd (Unicom NewSpace) | A subsidiary of Unicom Group |
| Unicom Xingye Science and Technology Trade Co. (Unicom Xingye) | A subsidiary of Unicom Group |

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| | |
|---|------------------------------|
| Beijing Unicom Xingye Science and Technology Company Limited (Beijing Xingye) | A subsidiary of Unicom Group |
| Unicom Import and Export Company Limited (Unicom I/E Co) | A subsidiary of Unicom Group |
| China Unicom International Limited (Unicom International) | A subsidiary of Unicom Group |
| Unicom International (HK) Limited (Unicom International (HK)) | A subsidiary of Unicom Group |
| Unicom New Horizon Mobile Telecommunications Company Limited (Unicom New Horizon) | A subsidiary of Unicom Group |
| China Unicom Corporation Limited (CUCL) | A subsidiary of the Company |
| Unicom New Century Telecommunications Corporation Limited (Unicom New Century) | A subsidiary of the Company |
| Guoxin Paging Corporation Ltd. (Guoxin) | A subsidiary of the CUCL |
| Unicom Guomai Communications Corporation Limited (Unicom Guomai) | A subsidiary of the Guoxin |

(a) Transactions with Unicom Group

The following is a summary of significant recurring transactions carried out with Unicom Group and its subsidiaries. In the Director's opinion, these transactions were carried out on normal commercial terms in the ordinary course of business.

| Transactions with Unicom Group and its subsidiaries: | Unaudited | |
|--|--------------------------|---------|
| | Six months ended 30 June | |
| | 2003 | 2002 |
| | RMB 000 | RMB 000 |
| Interconnection and roaming revenues | 473,687 | 682,834 |
| Interconnection and roaming charges | 125,177 | 146,066 |
| Rental charges for premises, equipment and facilities | 12,440 | 10,356 |
| Rental income for premises and facilities | 6,867 | |
| Revenue for leasing of transmission line capacity | 96,700 | 277,614 |
| Sales of CDMA mobile handsets | 10,775 | 358,740 |
| Charges for the international gateway services | 6,666 | 6,732 |
| Leasing of satellite transmission capacity | 16,330 | 31,117 |
| Purchase of telecom cards | 640,957 | 528,574 |
| CDMA network capacity lease rental | 1,548,493 | 368,671 |
| Commission expenses for sales agency services incurred for telecom cards | 9,038 | 8,972 |
| Agency fee incurred for procurement of telecommunications equipment | 5,242 | 68,916 |
| Rental for the PRC corporate office | | 5,066 |
| Sales of telecommunications equipment | 3,369 | |

Information presented above for the six months ended 30 June 2003 also comprised new related party transactions between Unicom New Century and Unicom Group and its subsidiaries after the acquisition of Unicom New Century by the Company on 31 December 2002. The nature, terms and conditions of these new related party transactions of Unicom New Century are substantially the same as the Group's, which have been set forth in the shareholders' circular "Connected Transactions and Renewal of Waiver for Existing Connected Transactions" of the Company issued on 29 November 2002 and the Company's 2002 annual report.

Prior to 31 December 2002, the Group's transactions with Unicom New Century (previously a subsidiary of Unicom Group) were treated as related party transactions, and had been included in the related party transactions described above for the six months ended 30 June 2002. Such transactions mainly included (i) interconnection and roaming revenues, (ii) interconnection and roaming charges, (iii) revenue for leasing of transmission line capacity and (iv) sales of CDMA mobile handsets. Upon the acquisition of Unicom New Century, these transactions become inter-group transactions and have been eliminated in the Group's consolidated financial statements starting from 1 January 2003.

(b) Amounts due from and to related parties/Unicom Group

Amounts due from and to related parties or Unicom Group are unsecured, non-interest bearing, repayable on demand and arise in the ordinary course of business in respect of transactions with Unicom Group or the subsidiaries of Unicom Group as described in (a) above.

(c) Short-term loans from Unicom Group

As of 31 December, 2002, short-term loans from Unicom Group represented loans provided by Unicom Group to relevant branches of Unicom New Century to finance the operations of the Cellular Business. These loans were borrowed by Unicom Group from banks at the interest rate of 4.54%. These bank loans were identified as attributable to the relevant branches of Unicom New Century based on the amount of funds actually utilised by the relevant branches of Unicom New Century. The corresponding interest expenses were also charged to these relevant branches based on funds actually utilised. All these loans were guaranteed by Unicom Group. As of 30 June 2003, such loans have already been fully repaid by the Group.

(d) Bank loans guaranteed by Unicom Group

As of 30 June 2003, the Group has approximately RMB10,377 million (2002: RMB12,635 million) of long-term bank loans and RMB90 million (2002: RMB463 million) of short-term bank loans guaranteed by Unicom Group.

29. TRANSACTIONS WITH DOMESTIC CARRIERS

The Group's telecommunications networks depend, in large part, on interconnection with domestic carriers' public switched telephone network and on transmission lines leased from major domestic carriers. Major domestic carriers include China Telecommunications Corporation and its subsidiaries (China Telecom), China Mobile Communications Corporation and its subsidiaries (China Mobile) and China Netcom Corporation and its subsidiaries (China Netcom).

(a) Transactions with domestic carriers

The following is a summary of significant transactions with domestic carriers in the ordinary course of business:

| | Note | Unaudited | |
|-------------------------------------|-------|--------------------------|-----------|
| | | Six months ended 30 June | |
| | | 2003 | 2002 |
| | | RMB '000 | RMB '000 |
| Interconnection revenue | (i) | 665,224 | 260,722 |
| Interconnection charges | (i) | 2,313,318 | 1,068,192 |
| Leased line rental income | (ii) | 99,272 | |
| Leased line charges | (ii) | 335,955 | 231,462 |
| Operating lease charges | (iii) | 3,106 | 8,343 |
| Agency fee on collection of revenue | (iv) | 1,832 | 2,160 |

Note:

(i) The interconnection revenue and charges mainly represent the amounts due from or to domestic carriers for telephone calls made between the Group's networks and the public switched telephone network of domestic carriers. The interconnection settlements are calculated in accordance with interconnection agreements reached between the branches of the Group and domestic carriers on a provincial basis. The terms of these agreements are set in accordance with the standard settlement arrangement stipulated by the MII.

(ii) Leased line charges are paid or payable to domestic carriers by the Group for the provision of leasing transmission line. At the same time, the Group leases transmission line to domestic carriers and leased line rental income represents the amount received or receivable from them. The charges are calculated at a fixed charge per line, depending on the number of lines being used by the Group and domestic carriers.

(iii) Guoxin has signed operating lease agreements with the relevant domestic carriers for the use of certain land and buildings. The rentals are based on the market rates in the locality of the land and building.

(iv) Guoxin has signed agency agreements with the relevant domestic carriers for sales agency services based on standard commission rates, being the prevailing market rates in the locality. Charges for collection services are calculated at a fixed percentage of fees collected from subscribers.

(b) Amounts due from and to domestic carriers

| | Unaudited 30 June 2003 RMB 000 | Audited 31 December 2002 RMB 000 |
|--|---|---|
| Amounts due from domestic carriers | | |
| - revenue collected on behalf of Guoxin | 313,933 | 260,578 |
| - less: provision for doubtful debts | (40,373) | (49,116) |
| | 273,560 | 211,462 |
| Amounts due to domestic carriers | | |
| - payables for interconnection charges, leased lines, operating leases and agency fees, etc. | 1,166,698 | 1,123,580 |
| Long-term payable due to domestic carriers | | |
| - payables for obligations under finance leases: | | |
| - current portion of obligations under finance leases | 21,114 | 16,793 |
| - obligations under finance leases | 100,511 | 101,302 |
| | 121,625 | 118,095 |

All amounts due from and to domestic carriers were unsecured, non-interest bearing and repayable within one year.

Long-term payable for obligations under finance lease was related to the leasing of certain subsea transmission cables from a domestic carrier for a period of 25 years (see Note 25).

30. 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 Group organises its business segments based on the various types of telecommunications services provided to customers in the PRC. The major business segments operated by the Group are classified as below:

GSM Business the provision of GSM telephone and related services;

CDMA Business the provision of CDMA telephone and related services, through a leasing arrangement of CDMA network capacities from Unicom New Horizon;

Data and Internet Business the provision of domestic and international data, Internet and other related services;

Long Distance Business the provision of domestic and international long distance and other related services;
and

Paging Business the provision of paging and related services.

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*

| | Unaudited | | | | | | | Total RMB 000 |
|--|-------------------------------|-----------------------------|---|---|-------------------------------|-----------------------------------|------------------------|---------------------|
| | Six months ended 30 June 2003 | | | | | | | |
| | GSM Business RMB 000 | CDMA Business RMB 000 | Internet and Data Business RMB 000 | Long Distance Business RMB 000 | Paging Business RMB 000 | Unallocated amounts RMB 000 | Elimination RMB 000 | |
| Operating Revenue (Turnover): | | | | | | | | |
| Usage fee | 14,391,597 | 5,083,572 | 1,126,373 | 603,604 | | | | 21,205,146 |
| Monthly fee | 3,595,350 | 1,565,555 | 4,524 | | 396,930 | | | 5,562,359 |
| Interconnection revenue | 821,812 | 215,620 | 163,534 | 145,501 | 645 | | | 1,347,112 |
| Leased lines rental | | | 239,242 | 331,470 | | | | 570,712 |
| Other revenue | 1,232,250 | 342,975 | 43,192 | 15,202 | 329,357 | | | 1,962,976 |
| Total services revenue | 20,041,009 | 7,207,722 | 1,576,865 | 1,095,777 | 726,932 | | | 30,648,305 |
| Sales of telecommunications products | 476,322 | 636,229 | 2,328 | 361 | 203,699 | | | 1,318,939 |
| Total operating revenue from external customers | 20,517,331 | 7,843,951 | 1,579,193 | 1,096,138 | 930,631 | | | 31,967,244 |
| Intersegment revenue | 9,490 | 997 | 766,793 | 349,218 | 101,375 | | (1,227,873) | |
| Total operating revenue | 20,526,821 | 7,844,948 | 2,345,986 | 1,445,356 | 1,032,006 | | | 31,967,244 |
| Operating expenses: | | | | | | | | |
| Leased lines and network capacities | (161,726) | (1,597,185) | (141,374) | (18,448) | (44,435) | | 10,959 | (1,952,209) |
| Interconnection charges | (2,427,999) | (614,556) | (305,371) | (345,044) | | | 1,115,540 | (2,577,430) |
| - Depreciation and amortisation | (6,545,994) | (169,688) | (621,014) | (167,317) | (629,702) | (2,982) | (42,738) | (8,179,435) |
| Personnel | (1,329,016) | (286,710) | (226,152) | (150,602) | (217,539) | (14,329) | | (2,224,348) |
| Selling and marketing | (1,912,851) | (4,349,367) | (269,090) | (145,260) | (62,778) | | 1,451 | (6,737,895) |
| General, administrative and other expenses | (2,785,766) | (569,320) | (309,165) | (203,404) | (702,000) | (19,997) | 490 | (4,589,162) |
| Cost of telecommunications products sold | (405,012) | (831,348) | (5,932) | (1,026) | (285,054) | | 99,722 | (1,428,650) |
| Total operating expenses | (15,568,364) | (8,418,174) | (1,878,098) | (1,031,101) | (1,941,508) | (37,308) | | (27,689,129) |
| Operating profit (loss) | 4,958,457 | (573,226) | 467,888 | 414,255 | (909,502) | (37,308) | | 4,278,115 |
| Interest income | 30,721 | 2,688 | 1,776 | 1,169 | 4,533 | 64,022 | | 104,909 |
| Finance costs | (959,690) | (15,961) | (15,085) | (25,717) | (2,984) | 93 | | (1,019,344) |
| Other (expense) income, net | (20,555) | (1,209) | (8,763) | 147 | 20,395 | | | (9,985) |
| Segment profit (loss) before taxation | 4,008,933 | (587,708) | 445,816 | 389,854 | (887,558) | 26,807 | | 3,353,695 |

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|--|-----------|---------|-----------|-----------|---------|-----------|--|--|-----------|
| Taxation | | | | | | | | | (966,170) |
| Profit after taxation | | | | | | | | | 2,387,525 |
| Minority interests | | | | | | | | | (2,252) |
| Profit attributable to shareholders | | | | | | | | | 2,385,273 |
| Other information: | | | | | | | | | |
| Provision (write-back) for doubtful debts | 628,731 | 160,417 | 31,873 | 26,944 | 6,989 | | | | 854,954 |
| Impairment loss recognised in the income statement | | | 7,030 | | 528,038 | | | | 535,068 |
| Capital expenditures for segment assets (1) | 3,549,753 | | 1,327,412 | 1,691,980 | 20,128 | 1,552,295 | | | 8,141,568 |

| | Unaudited | | | | | | | Elimination | Total |
|---|-------------------------------|---------------|----------------------------|------------------------|-----------------|---------------------|-------------|--------------|-------|
| | Six months ended 30 June 2002 | | | | | | | | |
| | GSM Business | CDMA Business | Internet and Data Business | Long Distance Business | Paging Business | Unallocated amounts | | | |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | |
| Operating Revenue (Turnover): | | | | | | | | | |
| Usage fee | 9,766,465 | 243,819 | 952,605 | 526,369 | | | | 11,489,258 | |
| Monthly fee | 2,073,919 | 86,098 | 8,256 | | 1,119,141 | | | 3,287,414 | |
| Interconnection revenue | 715,797 | 18,200 | 173,758 | 264,662 | | | | 1,172,417 | |
| Leased lines rental | | | 139,198 | 318,968 | | | | 458,166 | |
| Other revenue | 382,120 | 5,913 | 35,167 | 5,103 | 111,880 | | | 540,183 | |
| Total services revenue | 12,938,301 | 354,030 | 1,308,984 | 1,115,102 | 1,231,021 | | | 16,947,438 | |
| Sales of telecommunications products | 376,241 | 99,912 | | | 567,253 | | | 1,043,406 | |
| Total operating revenue from external customers | 13,314,542 | 453,942 | 1,308,984 | 1,115,102 | 1,798,274 | | | 17,990,844 | |
| Intersegment revenue | | | 289,370 | 415,550 | 400,582 | | (1,105,502) | | |
| Total operating revenue | 13,314,542 | 453,942 | 1,598,354 | 1,530,652 | 2,198,856 | | | 17,990,844 | |
| Operating expenses: | | | | | | | | | |
| Leased lines and network capacities | (174,423) | (384,086) | (53,908) | (46,539) | (78,004) | | | (736,960) | |
| Interconnection charges | (1,625,489) | (32,049) | (163,877) | (200,677) | | | 753,908 | (1,268,184) | |
| - Depreciation and amortisation | (3,976,010) | (51,103) | (296,474) | (293,666) | (728,173) | (2,572) | | (5,347,998) | |
| Personnel | (720,478) | (97,799) | (169,857) | (118,964) | (288,575) | (13,589) | | (1,409,262) | |
| Selling and marketing | (1,228,698) | (212,711) | (385,210) | (143,431) | (119,916) | | | (2,089,966) | |
| General, administrative and other expenses | (1,705,902) | (149,072) | (186,095) | (133,310) | (330,792) | (30,365) | | (2,535,536) | |
| Cost of telecommunications products sold | (468,128) | (129,858) | | | (914,713) | | 345,190 | (1,167,509) | |
| Total operating expenses | (9,899,128) | (1,056,678) | (1,255,421) | (936,587) | (2,460,173) | (46,526) | | (14,555,415) | |

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| | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Operating profit (loss) | 3,415,414 | (602,736) | 342,933 | 594,065 | (261,317) | (46,526) | 3,435,429 |
| Interest income | 25,884 | 2,939 | 3,310 | 3,321 | 11,902 | 219,302 | 266,658 |
| Finance costs | (644,000) | (964) | (36,472) | (65,201) | (368) | (14,262) | (761,267) |
| Other (expense) income, net | (1,545) | 58 | (1,209) | 604 | 35,979 | 8,271 | 42,158 |
| Segment profit (loss) before taxation | 2,795,753 | (600,703) | 308,562 | 532,789 | (213,804) | 166,785 | 2,982,978 |
| Taxation | | | | | | | (843,434) |
| Profit after taxation | | | | | | | 2,139,544 |
| Minority interests | | | | | | | (2,789) |
| Profit attributable to shareholders | | | | | | | 2,136,755 |
| Other information: | | | | | | | |
| Provision (write-back) for doubtful debts | 472,342 | 5,850 | 26,571 | 22,312 | (323) | | 526,752 |
| Impairment loss recognised in the income statement | | | | | | | |
| Capital expenditures for segment assets (1) | 3,449,960 | | 2,504,426 | 1,419,917 | 139,039 | 1,459,223 | 8,972,565 |

| | Unaudited As of 30 June 2003 | | | | | | | Total RMB 000 |
|---------------------------|---------------------------------|-----------------------------|---|---|-------------------------------|-----------------------------------|------------------------|------------------|
| | GSM Business RMB 000 | CDMA Business RMB 000 | Internet and Data Business RMB 000 | Long Distance Business RMB 000 | Paging Business RMB 000 | Unallocated amounts RMB 000 | Elimination RMB 000 | |
| Total segment assets | 97,506,360 | 4,776,788 | 8,464,964 | 14,364,942 | 6,651,909 | 56,874,465 | (47,435,561) | 141,203,867 |
| Total segment liabilities | 58,894,369 | 5,431,989 | 3,459,237 | 3,458,651 | 1,521,469 | 91,636 | | 72,857,351 |

| | Audited As of 31 December 2002 | | | | | | | Total RMB 000 |
|---------------------------|-----------------------------------|-----------------------------|---|---|-------------------------------|-----------------------------------|------------------------|------------------|
| | GSM Business RMB 000 | CDMA Business RMB 000 | Internet and Data Business RMB 000 | Long Distance Business RMB 000 | Paging Business RMB 000 | Unallocated amounts RMB 000 | Elimination RMB 000 | |
| Total segment assets | 97,888,808 | 5,724,427 | 7,081,704 | 13,876,837 | 8,410,871 | 58,016,167 | (41,370,609) | 149,628,205 |
| Total segment liabilities | 67,666,655 | 5,788,290 | 2,785,794 | 3,826,692 | 2,205,343 | 136,639 | | 82,409,413 |

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

(b) ***Geographical segments***

The Group's services users are mainly in the PRC. There is no other geographical segment with segment revenue from external customers equal to or greater than 10% of total consolidated revenue from sales to all external customers.

Although the Group has its corporate headquarters in Hong Kong, a substantial portion of the Group's non-current assets (including property, plant and equipment and other assets) are situated in mainland China, as the Group's principal activities are conducted in the PRC. For the six months ended 30 June 2003, substantially all capital expenditures were incurred to acquire assets located in the mainland China. There is no other geographical segment with segment assets equal to or greater than 10% of the total assets of all geographical segments.

31. ACQUISITION

Unicom New Century was a limited liability company established in the PRC on 16 July 2002 to engage in the provision of GSM and CDMA cellular telecommunications services in 8 provinces and 1 municipality in the PRC, namely, Sichuan, Heilongjiang, Jilin, Henan, Jiangxi, Guangxi, Xinjiang, Shaanxi and Chongqing. The GSM Businesses and the relevant net assets were previously owned and operated by various branches of Unicom Group.

Pursuant to the ordinary resolution passed by the Company's Board of Directors on 20 November 2002 and extraordinary general meeting passed by the Company's shareholders on 23 December 2002, the Company acquired the entire equity interests of Unicom New Century (via intermediary holding company, Unicom New Century (BVI) Limited) by a cash consideration of RMB4,909 million (including other direct costs of acquisition of RMB109 million). Thereafter, Unicom New Century has become a wholly-owned subsidiary of the Company.

The aforementioned acquisition of Unicom New Century became effective on 31 December 2002 when all the conditions to the acquisition were satisfied and cash consideration was settled by the Group. The Company has adopted the purchase method of accounting to account for this acquisition. The total fair value of the identifiable assets and liabilities of Unicom New Century as of 31 December 2002 amounted to approximately RMB2,624 million, the excess of purchase consideration over the fair value of identifiable assets and liabilities has been recorded as goodwill amounting to RMB2,285 million, which is amortised using the straight-line method over the beneficial period of 20 years.

The effective date of this acquisition was 31 December 2002, accordingly, the operating results of Unicom New Century have been included in the condensed consolidated income statement of the Group for the six months ended 30 June 2003. Details of the acquisition have already been set forth in shareholders' circular "Connected Transactions and Renewal of Waiver for Existing Connected Transactions" of the Company issued on 29 November 2002 and the Company's 2002 annual report.

32. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

As of 30 June 2003 and 31 December 2002, the Group had capital commitments, mainly in relation to the construction of telecommunications networks, as follows:

| | Unaudited 30 June 2003 | | Audited 31 December 2002 | |
|-----------------------------------|----------------------------------|----------------------|----------------------------------|----------------------|
| | Land and buildings RMB 000 | Equipment RMB 000 | Land and buildings RMB 000 | Equipment RMB 000 |
| Authorised and contracted for | 1,150,670 | 4,450,356 | 1,131,055 | 5,131,164 |
| Authorised but not contracted for | 40,138 | 543,583 | 12,940 | 2,623,215 |
| Total | 1,190,808 | 4,993,939 | 1,143,995 | 7,754,379 |

As of 30 June 2003, approximately RMB270 million (2002: RMB385 million) of capital commitment outstanding was denominated in US dollars (equivalent to US\$33 million (2002: US\$47 million)).

(b) Operating lease commitments

As of 30 June 2003 and 31 December 2002, the Group had total future aggregate minimum operating lease payments under operating leases as follows:

| | Unaudited 30 June 2003 | | | Audited 31 December 2002 | | |
|---|----------------------------------|----------------------|---|----------------------------------|----------------------|---|
| | Land and buildings RMB 000 | Equipment RMB 000 | CDMA network capacity leasing RMB 000 | Land and buildings RMB 000 | Equipment RMB 000 | CDMA network capacity leasing RMB 000 |
| Leases expiring : | | | | | | |
| not later than one year | 386,398 | 285,198 | 1,804,800 | 311,835 | 274,140 | 3,045,600 |
| later than one year and not later than five years | 1,056,655 | 445,032 | | 920,038 | 493,826 | |

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| | | | | | | |
|-----------------------|-----------|---------|-----------|-----------|-----------|-----------|
| later than five years | 688,474 | 197,791 | | 875,894 | 255,273 | |
| Total | 2,131,527 | 928,021 | 1,804,800 | 2,107,767 | 1,023,239 | 3,045,600 |

(c) *Commitment to purchase CDMA handsets*

As of 30 June 2003, the Group committed to purchase CDMA handsets amounted to approximately RMB514 million (2002: RMB870 million).

(d) *Contingent liability*

As of 30 June 2003, Unicom Guomai provided guarantees for bank loans borrowed by Shanghai Telecommunications Company Limited (formally known as Shanghai Provincial Post and Telecommunications Administrations) amounted to approximately US\$18.44 million (2002: US\$23.48 million). All these bank loans were not yet due as of 30 June 2003.

33. **APPROVAL OF INTERIM ACCOUNTS**

The interim accounts were approved by the Board of Directors of the Company on 28 August 2003.

Independent Review Report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the condensed interim financial report of the Company and its subsidiaries (the Group) for the six months ended 30 June 2003 as set out on pages 7 to 42.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 Interim financial reporting issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 Engagements to review interim financial reports issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

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On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2003

Other Information

MANAGEMENT DISCUSSION AND ANALYSIS

1. Condition of Capital Expenditures for the Reporting Period

The Company's total capital expenditure for the first half of 2003 was RMB8.14 billion, dropped by 9.3% from the same period last year. Capital expenditures attributable to the GSM Cellular Business, the Long Distance, Data and Internet Business, the transmission network, the Paging Business, and other shared facilities amounted to RMB3.55 billion, RMB0.86 billion, RMB2.16 billion, RMB20 million and RMB1.55 billion respectively.

2. Share Option Scheme

On 1 June 2000, the Company adopted a share option scheme (the Share Option Scheme) for the purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the amended chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules) which came into effect on 1 September 2001 and, following amendment, provides a more favourable scheme to attract and retain key personnel. Under the amended Share Option Scheme:

- (a) Share options may be granted to employees including executive directors of the Group and any of the non-executive directors;
- (b) Any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options);
- (c) The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;
- (d) The option period commences on any day after the date on which an option is offered, but may not exceed 10 years from the offer date;

- (e) The subscription price shall not be less than the higher of:
- i. The nominal value of the shares;
 - ii. The closing price of the shares on The Stock Exchange of Hong Kong Limited (Stock Exchange) as stated in the Stock Exchange s quotation sheets on the offer date in respect of the options; and
 - iii. The closing price of the shares on the Stock Exchange s quotation sheets for the five trading days immediately preceding the offer date.

Up to 30 June 2003, 147,106,800 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 6,076,000 share options are being held by the directors. Please refer to the paragraph Directors Rights to Acquire Shares hereinbelow for details.

All of the options granted and outstanding as at 30 June 2003 are governed by the amended terms of the Share Option Scheme as stated herein.

Up to 30 June 2003, no options granted under the Share Option Scheme have been exercised.

3. Pre-global offering share option scheme

On 1 June 2000, the Company also adopted a pre-global offering share option scheme (the Pre-Global Offering Share Option Scheme). In order to synchronise the administration of the options granted under the Pre-Global Offering Share Option Scheme with the Share Option Scheme, the Pre-Global Offering Share Option Scheme was also amended on 13 May 2002. The amended terms of the Pre-Global Offering Share Option Scheme are substantially the same as the Share Option Scheme stated above except that:

(a) The price of a share payable upon the exercise of an option shall be HK\$15.42 (excluding the brokerage fee and Stock Exchange transaction levy);

(b) The period during which an option may be exercised commenced two years from the date of grant of the options and ends 10 years from 22 June 2000; and

(c) No further options can be granted under the scheme.

Up to 30 June 2003, 25,436,600 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme of the Company, of which 1,610,000 options are being held by the directors. Please refer to the paragraph Directors' Rights to Acquire Shares hereinbelow for details.

All of the options granted and outstanding as at 30 June 2003 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

Up to 30 June 2003, no options granted under the Pre-Global Offering Share Option Scheme have been exercised.

4. Charge on Assets

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As at 30 June 2003, no property, plant and equipment was pledged to banks as loan security (30 June 2002: Nil).

According to paragraph 40 of Appendix 16 of the Listing Rules, save as disclosed herein, the Company confirms that the current Company's information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed materially from the information disclosed in the Company's 2002 annual report.

Directors' Interests in Shares

As at 30 June 2003, the interests of the directors of the Company in the equity securities of the Company and any of its associated corporations as defined in the Securities & Futures Ordinance (the Ordinance) were as follows:

| Name of Directors | Personal Interest |
|---|-----------------------------------|
| Shi Cuiming | 30,000 Ordinary Shares |
| C. James Judson (an alternate director to Craig O. McCaw) | 1,000 American Depositary Receipt |

Note: As at 30 June 2003, one American Depositary Receipt represents 10 ordinary shares of HK\$0.1 each of the Company

In addition, certain directors personally hold options to purchase ordinary shares of the Company as disclosed under the paragraph Directors Rights To Acquire Shares below. These share options are granted pursuant to the terms of the Share Option Scheme and the Pre-Global Offering Share Option Scheme adopted by the Company.

Apart from the foregoing, as at 30 June 2003, none of the directors had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Ordinance.

Directors Rights to Acquire Shares

As at 30 June 2003, the interests of the directors of the Company in the equity securities of the Company and any of its associated corporations consisted of share options granted pursuant to the Share Option Scheme and the Pre-Global Offering Share Option Scheme to subscribe for shares of the Company. Details of such share options are set out below:

| Name of Directors | No. of Options granted before the period(1) | No. of Options granted during the period(1) | No. of Options exercised during the period | No. of Options outstanding at the end of the period |
|----------------------|---|---|--|---|
| Yang Xian Zu (2) | 1,051,000 | 526,000 | | 1,577,000 |
| Wang Jianzhou | 816,200 | 420,000 | | 1,236,200 |
| Shi Cuiming | 792,200 | 396,000 | | 1,188,200 |
| Lo Wing Yan, William | | 292,000 | | 292,000 |
| Ye Fengping | 268,000 | 204,000 | | 472,000 |
| Ge Lei | 584,600 | 292,000 | | 876,600 |
| Lee Hon Chiu | 292,000 | 292,000 | | 584,000 |
| Wu Jinglian | 292,000 | 292,000 | | 584,000 |
| Craig O. McCaw | 292,000 | 292,000 | | 584,000 |
| Shan Weijian | | 292,000 | | 292,000 |

-
- (1) Each option gives the holder the right to subscribe for one share.
- (2) Mr. Yang Xian Zu resigned as Chairman, Chief Executive Officer and Executive Director on 28 August 2003.

Apart from the foregoing, at no time during the six months ended 30 June 2003 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Interest in the Share Capital of the Company

The Company has been notified of the following interests in the Company's issued shares at 30 June 2003 amounting to 5% or more of the ordinary shares in issue:

| | | Shares Held directly | Shares Held indirectly | Percentage of Total issued Shares |
|-------|---|-------------------------|---------------------------|---|
| (i) | China United Telecommunications Corporation (Unicom Group) | | 9,725,000,020 | 77.47% |
| (ii) | China United Telecommunications Corporation Limited (China Unicom Corporation) | | 9,725,000,020 | 77.47% |
| (iii) | China Unicom (BVI) Limited (China Unicom (BVI)) | 9,725,000,020 | | 77.47% |

Note: Because of the fact that Unicom Group and China Unicom Corporation directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of China Unicom (BVI), in accordance with the Ordinance, the interests of China Unicom (BVI) are deemed to be, and have therefore been included in, the interests of Unicom Group and China Unicom Corporation.

Interim Dividend

It was resolved by our Board of Directors that no interim dividend for the six months ended 30 June 2003 be declared.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

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The audit committee has reviewed together with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. In addition, PricewaterhouseCoopers, the auditors of the Company, has reviewed the unaudited condensed consolidated interim accounts in accordance with Statements of Accounting Standards 700 Engagement to review interim financial reports issued by the Hong Kong Society of Accountants and communicated the results of review to the audit committee.

Compliance with Code of Best Practice

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

Forward-Looking Statements

The Company would also like to caution readers about the forward-looking nature of the above statements. These forward-looking statements are subject to risks and uncertainties, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategy.

By Order of the Board

Yee Foo Hei

Company Secretary

Hong Kong, 28 August 2003