

Report of the Directors

The directors (the “Directors”) of China Unicom Limited (the “Company”) are pleased to present their report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding and its subsidiaries are principally engaged in the provision of cellular, long distance, data, Internet and paging services in China.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2002 are set out on page 74 of the financial statements.

In view of the rapid growth in the Group’s business and strong operating performance during 2002, the Board of Directors recommends the payment of a final dividend of RMB0.10 per ordinary share, totaling RMB1,255,299,607 for the year ended 31 December 2002.

SUMMARY OF FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 157 and 158 for a summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2002.

LOANS

Please refer to Notes 26 and 27 to the financial statements for details of the bank loans of the Group as at 31 December 2002.

CAPITALISED INTEREST

Please refer to Note 7 to the financial statements for details of the Group’s capitalised interest for the year ended 31 December 2002.

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 19 to the financial statements for changes in the property, plant and equipment of the Group and the Company for the year ended 31 December 2002.

CHARGE ON ASSETS

As of 31 December 2002, no property, plant and equipment was pledged to banks as loan security (2001: RMB6.742 billion). All the bank loans secured by property, plant and equipment as at 31 December 2001 have been repaid during the year ended 31 December 2002.

RESERVES

Please refer to page 78 of the financial statements for the movements in the reserves of the Group for the year ended 31 December 2002.

DONATIONS

For the year ended 31 December 2002, the Group made charitable and other donations totaling RMB13,288,000.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to Notes 23 and 24 to the financial statements for details of the Company's subsidiaries and the Group's associated companies as at 31 December 2002.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 78 of the financial statements on the Statement of Changes in Shareholders' Equity.

HOUSING BENEFITS

Please refer to Note 12 to the financial statements for details of the housing benefits provided to employees of the Group.

RETIREMENT BENEFITS

Please refer to Note 11 to the financial statements for details of the retirement benefits provided to employees of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's sales to its five largest customers did not exceed 30% of the Group's total turnover for the year ended 31 December 2002.

Purchases from the largest supplier for the year ended 31 December 2002 represented approximately 8% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2002 accounted for approximately 24% of the total purchases of the Group for the year 2002.

None of the Directors nor their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers of the Group for the year ended 31 December 2002.

CONNECTED TRANSACTIONS

Please refer to Note 32(a) to the financial statements and the paragraph headed “Material Contract” for a summary of the connected transactions entered into by members of the Group for the year ended 31 December 2002.

The independent non-executive Directors confirmed that all connected transactions referred to in Note 32(a), to which the Group was a party during 2002:

1. were entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of its business;
2. were entered into either (a) on normal commercial terms, or (b) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than terms available to or from (as appropriate) independent third parties; and
3. were entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of our shareholders as a whole.

The independent non-executive Directors further confirm that:

1. the aggregate annual value of the lease of the Group’s head office in Beijing from Unicom Xingye Science and Technology Trade Co. Ltd (the “Beijing Lease”) did not exceed the maximum amount of RMB15.2 million (“Cap A”);
2. the aggregate annual value of the rental charges for premises, equipment and facilities between the Group and China Unicom Telecommunications Corporation (“Unicom Group”), excluding the Beijing Lease (the “Mutual Provision of Premises”), did not exceed the maximum amount of RMB650 million (“Cap B”);
3. the aggregate annual lease fee for the lease of CDMA capacity from Unicom New Horizon Company Limited (“CDMA Lease”) did not exceed the maximum amount of RMB2.74 billion (“Cap C”); and
4. the aggregate value of the CDMA mobile handset sales (“Sales of CDMA Mobile Handsets”) from Unicom Guomai Communications Co. Ltd. to Unicom Group did not exceed the cap of RMB619 million (“Cap D”).

The auditors of the Group have reviewed the connected transactions and confirmed to the Directors that:

- (a) the transactions have received the approval of the Directors;
- (b) the transactions were entered into in accordance with the pricing policies of the Company as stipulated in the relevant agreements governing such transactions;
- (c) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (d) the Beijing Lease, the Mutual Provision of Premises, the CDMA Lease and the Sales of CDMA Mobile Handsets did not exceed Cap A, Cap B, Cap C and Cap D respectively.

SHARE CAPITAL

Please refer to Note 29 to the financial statements for details of the share capital of the Company for the year ended 31 December 2002.

SHARE OPTION SCHEMES

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:

- (i) share options may be granted to employees including executive directors of the Group and any of the non-executive directors;
- (ii) 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);
- (iii) 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;
- (iv) 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;
- (v) the subscription price shall not be less than the higher of:
 - (a) the nominal value of the shares;
 - (b) 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
 - (c) 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 31 December 2002, the Company had granted 42,752,000 share options under the Share Option Scheme, of which 2,802,000 share options had been granted to the directors. Please refer to the paragraph headed "Directors' interests in and right to acquire shares" for details of the options granted to directors.

All of the options granted are governed by the amended terms of the Share Option Scheme as stated herein.

As at 31 December 2002, no options granted under the Share Option Scheme have been exercised or cancelled.

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:

- (i) on 22 June 2000, 27,116,600 options were granted under the scheme and such options, upon their exercise in full, would result in the issue of 27,116,600 shares of the Company. No further options can be granted under the scheme;
- (ii) 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); and
- (iii) the period during which an option may be exercised commences two years from the date of grant of the options and ends 10 years from 22 June 2002.

Up to 31 December 2002, the Company had granted 27,116,000 share options under the Pre-Global Offering Share Option Scheme, of which 1,814,400 options have been granted to the directors. Please refer to the paragraph headed “Directors’ interests in and right to acquire shares” for further details of the options granted.

All of the options granted are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

As at 31 December 2002, no options granted under the Pre-Global Offering Share Option Scheme have been exercised or cancelled.

Financial impact and valuation of share options granted

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the income statement account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

In respect of the disclosure of the value of options granted, please refer to the section headed “Additional Financial Information for North American Shareholders” on page 156.

Please also refer to Note 30 to the financial statements for an additional description of the respective share option schemes.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2002, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company had been notified of the following interests in the Company's issued shares at 31 December 2002 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of total issued shares
	Held directly	Held indirectly	
(i) China United Telecommunications Corporation ("Unicom Group")	—	9,725,000,020	77.47%
(ii) China United Telecommunications Corporation Limited ("A Share Company")	—	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 A Share Company directly control one-third or more of the voting rights in the shareholders' meetings of China Unicom (BVI), in accordance with the Securities (Disclosure of Interests) 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.

Apart from the foregoing, as at 31 December 2002 no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance as having an interest in 10% or more of the issued share capital of the Company.

Please also refer to Note 29 to the financial statements for the shareholding position of the Company's shares as at 31 December 2002.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets forth certain information concerning the Directors and senior management of the Company.

Name	Age	Position in the Company	Appointment Date	Re-appointment Date
Yang Xian Zu	63	Executive Director	20 April 2000	
		Chairman, Chief Executive Officer	28 May 2000	
Wang Jianzhou	54	Executive Director	20 April 2000	13 May 2002
		President	28 May 2000	
Shi Cuiming	63	Executive Director	20 April 2000	21 June 2001
		Executive Vice President	28 May 2000	
Li Zhengmao*	40	Executive Director	20 April 2000	21 June 2001
		Vice President	28 May 2000	
Lo Wing Yan	42	Executive Director and Vice President	8 July 2002	
Tan Xinghui*	41	Executive Director and Vice President	7 September 2000	
			21 June 2001	
Ye Fengping	39	Executive Director and Vice President	2 January 2003	
Ge Lei	62	Non-Executive Director	20 April 2000	21 June 2001
Lee Hon Chiu	74	Independent Non-Executive Director	20 April 2000	13 May 2002
Wu Jinglian	73	Independent Non-Executive Director	20 April 2000	13 May 2002
Craig O. McCaw	53	Independent Non-Executive Director	24 May 2000	
C. James Judson	58	Alternate Director to Craig O. McCaw	14 March 2001	
Liu Yunjie	60	Vice President	28 May 2000	

* Mr. Li Zhengmao and Mr. Tan Xinghui resigned as Executive Directors and Vice Presidents on 17 June 2002 and 2 January 2003 respectively.

In accordance with Article 97 of the Articles of Association, Messrs Shi Cuiming, Ge Lei, Craig O. Mc Caw are due to retire at the forthcoming annual general meeting of the Company and, being eligible for re-election, will offer themselves for re-election. Subject to the re-election of Mr. Craig O. McCaw, Mr C. James Judson shall continue to serve as an alternate director to Mr. Craig O. McCaw.

In accordance with Article 101 of the Articles of Association, Messrs. Lo Wing Yan and Ye Fengping are due to retire at the forthcoming annual general meeting of the Company and, being eligible for re-election, will offer themselves for re-election.

In addition, a resolution will be submitted by the Board of Directors at the forthcoming annual general meeting of the Company to elect Mr. Shan Weijian as a new director of the Company, who shall serve as a member of the Audit Committee of the Board of Directors upon his appointment as a director of the Company. Mr. Shan is currently the managing director of Newbridge Capital and the independent non-executive director of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited and a director of a number of companies including Korea First Bank, Baoshan Iron & Steel Co., Ltd. and TCC International Holdings Ltd. He has a master's degree in business administration from the University of San Francisco and a master's of arts degree in economic and a Ph.D degree in business administration from the University of California at Berkeley.

DIRECTORS' INTERESTS IN AND RIGHTS TO ACQUIRE SHARES

As at 31 December 2002, the interests of the Directors and the chief executive of the Company in the equity securities of the Company or any of its associated corporations (as defined in the securities (Disclosure of Interests) Ordinance (the "Ordinance")) as recorded in the register required to be kept under Section 29 of the Ordinance were as follows:-

Name of Directors	Personal Interest
Shi Cuiming	30,000 Ordinary Shares
Tan Xinghui	20,000 Ordinary Shares
C. James Judson (an alternate director to Craig O. McCaw)	1,000 American Depositary receipts ¹

¹ One American depositary receipt represents 10 ordinary shares of HK\$0.1 each in the Company.

As at 31 December 2002, the interests of the Directors and the chief executive of the Company in the equity securities of the Company or any of its associated corporations (as defined in the Ordinance) as recorded in the register required to be kept under section 29 of the Ordinance consist of share options granted pursuant to the Pre-Global Offering Share Option Scheme and the Share Option Scheme to the Directors and chief executive to subscribe for shares of the Company. Further details of the above are set out as follows:

Options granted under the pre-global offering share option scheme

Name of directors	Number of options granted ²	Number of options exercised during the year	Number of options outstanding at year end
Yang Xian Zu	525,000	—	525,000
Wang Jianzhou	396,200	—	396,200
Shi Cuiming	396,200	—	396,200
Ge Lei	292,600	—	292,600
Tan Xinghui	204,400	—	204,400

² Each option gives the holder the right to subscribe for one share.

Option granted under the share option scheme

Name of directors	Number of options granted ³	Number of options exercised during the year	Number of options outstanding at year end
Yang Xian Zu	526,000	—	526,000
Wang Jianzhou	420,000	—	420,000
Shi Cuiming	396,000	—	396,000
Ge Lei	292,000	—	292,000
Lee Hon Chiu	292,000	—	292,000
Wu Jinglian	292,000	—	292,000
Craig O. McCaw	292,000	—	292,000
Tan Xinghui	292,000	—	292,000

³ Each option gives the holder the right to subscribe for one share.

Apart from the foregoing, at no time during the year 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.

Furthermore, apart from the foregoing, as at 31 December 2002, 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' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

Each of the existing executive Directors has entered into a service contract with the Company for a term of three years.

Save for the service contracts mentioned above, as at 31 December 2002, the Directors did not have any material interests, whether directly or indirectly, in any contracts of significance entered into by the Company.

None of those Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENTS OF THE DIRECTORS AND SENIOR MANAGEMENT

Please refer to Note 9 to the financial statements for details of the emoluments of the Directors and senior management of the Company.

MATERIAL CONTRACT

On 20 November 2002, the Company entered into a conditional agreement for sale and purchase with China Unicom (BVI) Limited in relation to the acquisition of the businesses, assets and liabilities (including the GSM businesses and assets and the CDMA businesses) relating to telecommunications services in Jilin, Heilongjiang, Jiangxi, Henan, Shaanxi and Sichuan provinces, Chongqing municipality and the Guangxi Zhuang and Xinjiang Uygur autonomous regions in the PRC indirectly through the acquisition of the entire issued capital of Unicom New Century (BVI) Limited (the "Acquisition").

The Acquisition, constitutes a connected transaction for the Company under the Listing Rules, pursuant to which an independent board committee consisting of all independent directors formed by the Board together with the appointed independent financial advisers had reviewed the Acquisition and confirmed the terms and the reasons for the transaction to be fair and reasonable and recommended to shareholders to vote for the approval of the Acquisition at the extraordinary general meeting held on 23 December 2002 whereby such shareholders' approval had been obtained. The Acquisition was completed on 31 December 2002.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year of 2002 with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules except that the 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 meeting in accordance with the Articles of Association.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2002, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the Company is aware.

AUDITORS

PricewaterhouseCoopers was appointed as the auditors of the Company for the year ended 31 December 2002 and have audited the accompanying financial statements. A resolution will be submitted by the Board of Directors at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the Company's auditors for the year ending 31 December 2003.

By Order of the Board

Yang Xian Zu

Chairman and Chief Executive Officer

Hong Kong, 1 April 2003