

MANAGEMENT DISCUSSION AND ANALYSIS

1. Operation targets

The operation targets of China Unicom for 2004 are set out as follows:

- Cellular business is to reach 35% market share;
- International and domestic telephony services is to achieve 20% of market share in terms of long distance telephone business volume (including PSTN telephony business and IP telephony business);
- Internet business is to achieve 20% of market share in the Internet market; and
- Paging business is to continue to maintain its leading position in the user market.

2. Investment and Re-financing Plan

The capital expenditure plan for the Group's various businesses for the current year and the next two years are set out below:

	(Expressed in billions of RMB)			
	2002	2003	2004	Total
Cellular communication (GSM)	7.9	4.6	3.6	16.1
Long distance telephony communication, data and Internet	8.5	7.4	7.1	23.0
Paging	0.4	0.2	0.2	0.8
Others	4.9	7.0	6.0	17.9
Total	21.7	19.2	16.9	57.8

The Group will modify the investment direction and investment scale according to factors such as developments in technology and market conditions in order to reduce investment risks. Actual capital expenditure may be significantly different from the figures in the table above. The Directors of the Company believe that adjustments to the capital expenditure plan will not have any material impact on the business development of the Company and its subsidiaries.

The funding of the Group's capital expenditure mainly comes from the Group's operating cash flows, but the Company and its subsidiaries may still need to finance a large amount of its capital expenditure through external funding this year and the next two years. The Group can select appropriate financing channels and methods according to the conditions of financial markets both inside and outside of PRC.

3. Share Option Scheme

On 1 June 2000, the Company adopted a 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 new 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 provide 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 or any of the non-executive directors;
- (ii) any grant of share options to a Connected Person of the Company (as defined in the Listing Rules) 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 a day after the date on which an option is offered but not later than 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.

On 30 June 2001, the Company had granted 6,724,000 share options under the share option scheme.

All of the options were granted on 30 June 2001 and are governed by the amended terms of the share option scheme as stated herein.

As at 30 June 2002, no options granted under the share option scheme have been exercised.



4. Pre-Global Offering Share Option Scheme

In order to synchronise the administration of the options granted under the pre-global offering share option scheme in conjunction with the share option scheme, the pre-global offering share option scheme was also amended on 13 May 2002. The 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 have been granted under the scheme and such options, on their full exercise, represent 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 will end no later than 10 years from 22 June 2002.

On 22 June 2000, the Company had granted 27,116,600 share options under the pre-global offering share option scheme, of which 2,107,000 options have been granted to the directors. Please refer to the section headed “Directors’ Right to Acquire Shares” for further details of the options granted.

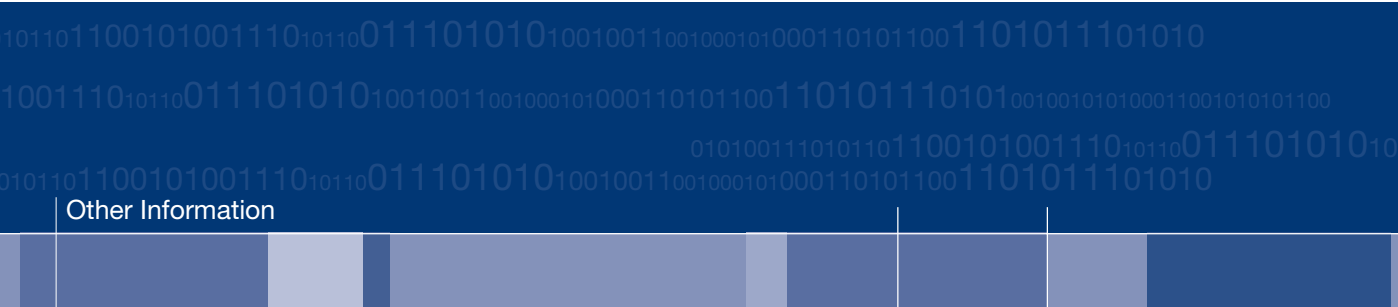
All of the options granted on 22 June 2000 are governed by the terms of the amended pre-global offering share option scheme as stated herein.

As at 30 June 2002, no options granted under the pre-global offering share option scheme have been exercised.

5. Charge On Assets

As at 30 June 2002, no property, plant and equipment was pledged to banks as loan security (31 December 2001: RMB 6.742 billion). All the bank loans secured by property, plant and equipment as at 31 December 2001 have been repaid during the current period.

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 changed materially from the information disclosed in the Company’s 2001 annual report.



DIRECTORS’ INTERESTS IN SHARES

As at 30 June 2002, the interests of the directors and the chief executive officer of the Company in the equity securities of the Company and 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 Depository Receipts

Note: As at 30 June 2002, one American depository 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 Pre-Global Offering Share Option Scheme adopted by the Company.

Apart from the foregoing, as at 30 June 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’ RIGHT TO ACQUIRE SHARES

As at 30 June 2002, the interests of the directors and chief executive of the Company in the equity securities of the Company and 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 to the directors and chief executive to subscribe for shares of the Company. Details of such share options are set out below:-

Name of Directors	No. of Options Granted ¹	No. of Options exercised during the period	No. of Options Outstanding at the end of the period
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

¹ Each option gives the holder the right to subscribe for one share.



Apart from the foregoing, at no time during the six months ended 30 June 2002 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 INTERESTS 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 2002 amounting to 10% 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.

Apart from the foregoing, 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 Ordinance as having an interest in 10% or more of the issued share capital of the Company.



Other Information

INTERIM DIVIDEND

It is suggested by our Board of Directors that no interim dividend for the six months ended 30 June 2002 be declared.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the condensed interim financial report for the six months ended 30 June 2002. In addition, PricewaterhouseCoopers has reviewed the unaudited condensed interim financial report 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 review results 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 2002 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 meeting 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
Ngai Wai Fung
Company Secretary

Hong Kong, 5 September 2002