

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

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

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