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Chairman's Statement

I am pleased to report the operating results of China Unicom Limited (the "Company") and its subsidiaries (the "Group") for the first six months of 2001.

1. Financial Overview

The Group continued to achieve a promising result in its financial performance in the first half of 2001. Total revenue for the period amounted to RMB13.62 billion, up 29.6% from the same period last year. Total service revenue, which does not include sales revenue on telecommunications products, was RMB12.92 billion, up 37.7%. Cellular revenue amounted to RMB9.45 billion, up 79.8% and its share of total revenue increased from 50.0% for the same period last year to 69.4%. Long distance, data and internet services revenue reached RMB1.37 billion, up 465.8%, and its share of total revenue increased from 2.3% to 10.0%. Paging revenue was RMB2.80 billion, down 44.0% from the same period last year and its share of total revenue fell from 47.7% for the same period last year to 20.6%.

We are committed to increasing our revenue aggressively. We tightened cost control, implemented a new profitability-based incentive scheme and reinforced resources' sharing. All these measures led to significant gains in profitability. In the first half of 2001, EBITDA totaled RMB6.51 billion, up 35.2% from the same period last year and EBITDA margin also increased from 45.8% for the same period last year to 47.8%. Operating income reached RMB2.63 billion, up 26.7% from the same period last year. Net income rose to RMB2.19 billion from RMB170 million for the same period last year, up 125.7% compared to the net income of RMB970 million before deducting the loss arising from the termination of "Chinese-Chinese-Foreign", or so-called CCF arrangements. Earnings per share increased from RMB0.017 for the same period last year to RMB0.175.

In the first half of 2001, the Group maintained a strong balance sheet. Total assets amounted to RMB124.0 billion. Debt to capital ratio stood at 41.2%. After deducting cash, cash equivalents and short term bank deposits from the total debt, the Group is in a net cash position.

2. Business Development

2.1 Rapid GSM cellular growth continued

During the first six months of 2001, the Group's GSM cellular subscribers continued its robust growth, with further gains in market share. For the six months ended 30 June, 2001, the Group's net increase in subscribers amounted to 7.43 million (comprising 60.4% as to post-paid and 39.6% as to pre-paid). Average monthly net addition to subscribers was over 1.20 million. Total subscriber number reached 20.20 million (comprising 74.7% as to post-

paid and 25.3% as to pre-paid), up 58.2% from the end of 2000. Accumulative market share in our service area expanded from 22.7% at the end of 2000 to 26.3%. Market share of net additions rose to 36.1%.

In the first half of this year, cellular traffic volume rose substantially, totaling 15.82 billion minutes, up 105.8% from the same period last year. MOU per subscriber stood at 162.1 minutes and ARPU at RMB92.5, down 9.7% and 25.6% respectively from the figures for the year 2000. Increased adoption of cellular services by the mass market and the continued decrease in connection fees were the two main factors for the decline. Post-paid ARPU was RMB99.2 and pre-paid ARPU was RMB65.1, down 23.1% and 13.3% respectively from the figures for the year 2000.

Our GSM network capacity and coverage continued to expand, with major improvements in network optimization and in-building network coverage in medium to large-sized cities. As of 30 June, 2001, our GSM network capacity reached 23.07 million and achieved full coverage over all cities, counties, major expressways and railways within our service areas. We have also established international roaming arrangements with 62 operators in 44 countries and regions.

Our wireless data service experienced rapid growth. In particular, our short messaging services ("SMS") has recorded extremely rapid increase in traffic. In the first six months of 2001, total volume surged to 230 million messages transmitted, while average monthly volume increased from 1.05 million in January 2001 to approximately 100 million in June 2001.

2.2. Rapid development in long distance, data and Internet services

As of 30 June, 2001, our "193" PSTN long distance, VoIP and "165" dial-up Internet access services had been launched in 300, 306 and 230 cities respectively. International roaming for VoIP services was in place in 47 countries and regions. In the first half of this year, registered subscribers for "193" services increased by 1.81 million to reach 2.24 million, 5.2 times of the figure at the end of 2000. Dial-up ("165") and dedicated line Internet access subscribers increased by 0.76 million to reach 1.18 million, 2.8 times of the figure at the end of 2000. We now share 9.4% of the commercial Internet access market.

With expanding service areas and subscriber base, our long distance, data and Internet businesses have entered a high-growth phase. For the six months ended 30 June, 2001, outgoing VoIP and PSTN calls totaled 2.4 billion minutes, 2.5 times of the total number of minutes for 2000. Incoming international calls (including calls from Hong Kong, Macau and Taiwan) reached 520 million minutes, 1.9 times of the figure recorded for the whole of last

year. Total dial-up Internet access traffic amounted to 3.5 billion minutes, 11 times of last year's total. The combined outgoing long distance market share reached 5.6%. PSTN and VoIP technology based long distance telephony service each had a market share of 2.5% and 18.4% respectively.

2.3. Paging business maintained dominant market position but recorded first ever decline

As of 30 June, 2001, our paging subscribers totaled 40.05 million, down 4.47 million from the end of last year. The churn rate for our paging business was 23.5%. Together with the decline in subscribers, paging ARPU also slipped 34% from RMB15.3 for 2000 to RMB10.1. Accelerated paging-to-cellular migration and intensified competition are the main causes for the declines. Despite the above trends, China Unicom maintained its dominant position in the paging market.

2.4. Further Expansion of Network Infrastructure

As of 30 June, 2001, our optical fiber transmission network reached 240,000 km, including 71,000 km of backbone fiber network, covering 28 provinces and 293 major cities nationwide. In addition to meeting the transmission needs of our own businesses, we started selling and leasing network facilities and optic fiber capacity to other operators and companies. International gateway bandwidth expanded to 1,039 Mbps. We are currently executing an "Access to Ten-thousand Buildings" project (i.e. connecting our network to some ten thousand office blocks in 119 cities nationwide) in an effort to enhance our ability to provide local and "last mile" access to major business customers. So far, we have completed the construction and commenced operation of the local access network covering 2,200 office blocks. We are making good progress in the construction of the Asia Pacific Cable Network No. 2 Project (APCN 2), of which we are a member. We will own 27 155M full-circuits of the network upon its launch of service, which is expected at the end of October this year.

2.5. Sales and marketing and customer service capabilities further strengthened

Faced with increased competition, we focused on service differentiation and fully leveraged our strength of integrated operations in developing a wide range of favourable bundled services, including cellular bundled with paging, cellular with 193 long-distance and cellular with 165 Internet service. We have specifically increased our marketing and service efforts targeted at large customers. As of 30 June, 2001, we have built up teams in 30 provinces and over 300 cities nationwide dedicated to the development and service of corporate and institutional customers. We have also established a strategic arrangement to

co-operate with China Post to leverage its extensive nationwide sales outlets to market and sell our various products. So far, we have signed agreements with 31 provincial branches of China Post.

The launch of our nationwide centralized and standardized “1001” customer service system marked a significant step forward in our service capability and quality. This system provides round-the-clock services including service consulting, billing enquiry, customer complaints and feedback, service registration, payment reminder and emergency assistance. This comprehensive and convenient service is available to subscribers around the country by simply dialing “1001”.

On 1 June, 2001, our stock became a constituent stock of the Hong Kong Hang Seng Index. In addition, we were also selected by the Chinese Enterprises Association and the Association of Chinese Entrepreneurs as the “Most Influential Enterprise” in 2000 and bestowed on the award of one of the China’s Best Managed companies by an internationally acclaimed industry publication, Financial Asia. Our management and staff are encouraged by and proud of the recognitions.

3. Business Outlook

Looking ahead, we see both opportunities and challenges. The Chinese economy is experiencing sustained, rapid and healthy growth, with buoyant demand in the telecommunications market. China has now overtaken the US as the largest one wireless communications market in the world by subscriber numbers. Based on the Ministry of Information Industry’s forecast, China’s cellular subscriber numbers will total between 260 to 290 million by 2005, which translates into enormous potential for further growth. The regulatory environment of the PRC telecommunications industry has seen continuous improvement. In order to further break up monopoly and promote competition, the Chinese government will continue to enforce a series of preferential policies, including asymmetric regulation, which is in favor of Unicom’s rapid development. With China’s entry into the WTO, the PRC telecommunications market will become more open and competitive. To meet these challenges, we will fully leverage the opportunities ahead of us and focus on product and service innovation and differentiation. We will also fully leverage our strengths as an integrated operator to implement our established business strategies. We strive to accelerate our development and achieve even better operating results by providing integrated, high quality, efficient and differentiated telecommunications services. We have full confidence in the future prospects of the Group.

For our cellular business, we are alert to the market trends and will continue to emphasize network optimization, further improve network coverage and enhance network service quality. We will strive to rectify the decline in cellular ARPU through the accelerated development, testing

and commercialization of new cellular technologies and services, promotion of brand image, acquisition and retention of high-end subscribers and development of wireless data services under the “Uni-Info” brand.

Our long distance, data and Internet services are beginning to take off, with our network having attained critical scale nationwide. We will further expand our network coverage, improve network quality and expedite the construction of an integrated access network. We will focus on corporate and commercial users while actively expanding our share of the mass market through registered and card services. In addition, we will leverage our integrated operations to actively develop wireless Internet and M-commerce businesses. We will explore cooperative arrangements with ISPs and ICPs to expand subscriber base and enrich web contents.

For our paging business, we will actively adjust our business operations based on market trends and profitability. We will provide differentiated services such as customized information through detailed market segmentation. We aim to maintain our dominant market position and intend to implement stringent control over costs and capital expenditures. We will also actively develop value-added services such as wireless information services and call centers, expand the scope of paging services and explore new sources of revenue. At the same time, we will leverage our integrated operations to further develop multiple and in-depth cooperation between paging and other business operations. We will promote the paging and cellular bundled services and adopt other measures to proactively guide our paging subscribers to migrate to our cellular and other services.

To achieve nationwide network coverage, reduce connected transactions and sharpen our competitive edge, we are considering the acquisition from our parent — China United Telecommunications Corporation (“Unicom Group”) at an appropriate time of the cellular operations and assets in 18 provinces and other selected high quality assets.

Furthermore, Unicom Group has commenced construction of the first phase of its nationwide CDMA network. The CDMA network is expected to be completed and ready for service at around late 2001 or early 2002. We have signed a Memorandum of Understanding with the Unicom Group to lease capacity on the CDMA network. The Memorandum of Understanding was prepared based on the principles of fairness and equality, with the intention of reducing direct investment risk to us. Under the Memorandum of Understanding, we would enter into a formal lease with Unicom Group which would give us the exclusive right to lease capacity on and operate the CDMA network. The entering into of this formal lease will be subject to the compliance with the rules regarding connected transactions under the Hong Kong Listing Rules. We would lease capacity on a quarterly basis based on market demand in 2002 and thereafter on an annual base. The lease would have a one year term, renewable at our option. The lease payment will be calculated to allow Unicom Group to recoup its investment in seven years and

receive an 8% annual return on the capital employed. We have the option to acquire the network assets. We will receive all revenue generated from the operation of the CDMA network, and will be responsible for all operating expenses.

We will continue to intensify our reform efforts, enhance the incentive mechanisms in place, and improve our profitability-based performance evaluation system. We will accelerate the development of information management system. We will actively explore international cooperation opportunities, introduce first-class management and operating models and constantly upgrade management standards. At the same time, we will further leverage our integrated operations to step up our sales and marketing efforts, strengthen our large customer development capabilities, and raise customer service standards. We will continuously enlarge our market share and to achieve sustained, rapid and balanced business development. Our ultimate goal is to maximize our shareholders' value.

On behalf of the Board, I would like to extend our sincere thanks to all our shareholders and the public at large for their continuous attention and support and to our management and staff at all levels for their hard work and contributions.

Yang Xian Zu
Chairman

Hong Kong, 12 September, 2001

Unaudited Consolidated Interim Financial Statements

The Board of Directors of China Unicom Limited (the "Company") is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June, 2001.

CONSOLIDATED INCOME STATEMENTS (CONDENSED)

	Note	Unaudited	
		Six Months ended 30 June, 2001 RMB'000	2000 RMB'000
Revenue:			
Cellular Business		9,023,049	4,940,363
Paging Business		2,535,254	4,203,490
Long-distance, Data and Internet Business		1,366,329	241,478
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Total service revenue		12,924,632	9,385,331
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Sales of telecommunication products		694,294	1,119,567
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Total revenue	4	13,618,926	10,504,898
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Operating expenses:			
Leased lines		(516,171)	(482,867)
Interconnection charges		(1,006,905)	(620,526)
Depreciation and amortization		(3,878,314)	(2,739,394)
Personnel		(1,100,671)	(837,367)
Selling and marketing		(1,506,998)	(948,291)
General, administrative and other expenses		(2,248,042)	(1,560,848)
Cost of telecommunication products sold		(731,616)	(1,240,415)
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Total operating expenses		(10,988,717)	(8,429,708)

CONSOLIDATED INCOME STATEMENTS (CONDENSED) (Cont'd)

	Note	Unaudited	
		Six Months ended 30 June,	
		2001	2000
		RMB'000	RMB'000
Operating income		2,630,209	2,075,190
Net financial income (charges)	16 (b)	335,283	(436,673)
Loss arising from terminations of CCF Arrangements	5	—	(1,193,838)
Other income (expenses), net		65,905	(43,401)
Income before taxation and minority interests		3,031,397	401,278
Taxation	6	(850,590)	(110,913)
Income before minority interests		2,180,807	290,365
Minority interests		11,413	(119,138)
Net income		2,192,220	171,227
Net income per share (in RMB)			
Basic	7(a)	0.175	0.017
Diluted	7(b)	N/A	0.017

Supplemental Information[#]

Adjusted EBITDA [*]		6,508,523	4,814,584
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[#] This information does not form part of consolidated income statements (condensed).

^{*} Adjusted EBITDA represents income before net financial income (charges), net other income (expenses), taxation, depreciation and amortization (for the corresponding interim period of 2000, Adjusted EBITDA represented income before the aforesaid items and loss arising from terminations of CCF Arrangements). While EBITDA is commonly used in the telecommunication's industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operation performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. Our Adjusted EBITDA as described in these interim results are not necessarily comparable with similarly titled measures for other companies.

CONSOLIDATED STATEMENTS OF RECOGNIZED GAINS AND LOSSES (CONDENSED)

	Unaudited	
	Six Months ended 30 June,	
	2001	2000
	RMB'000	RMB'000
Surplus on revaluation of land and buildings	—	176,853
Net gains not recognised in the income statement	—	176,853
Net income for the period	2,192,220	171,227
Total recognised gains and losses	2,192,220	348,080

CONSOLIDATED BALANCE SHEETS (CONDENSED)

	Note	Unaudited 30 June, 2001 RMB'000	Audited 31 December, 2000 RMB'000
ASSETS			
Current assets:			
Cash and cash equivalents		36,726,849	44,716,685
Short-term bank deposits		16,048,109	7,838,935
Trading securities		370,848	373,405
Accounts receivable, net	9	1,977,962	1,545,051
Inventories		780,224	679,689
Prepayments and other current assets		1,225,277	1,665,661
Amounts due from China Telecom		345,927	376,246
Amounts due from related parties		959,741	539,321
Current portion of deferred tax assets		19,001	19,642
Total current assets		58,453,938	57,754,635
Non-current assets:			
Property, plant and equipment, net		63,070,121	52,863,637
Goodwill		258,270	295,962
Deferred expenditures		937,012	805,869
Deferred tax assets		1,142,676	994,078
Investment securities		110,338	88,945
Investment in associated companies		23,890	25,700
Total assets		123,996,245	112,828,826

CONSOLIDATED BALANCE SHEETS (CONDENSED) (Cont'd)

	Note	Unaudited 30 June, 2001 RMB'000	Audited 31 December, 2000 RMB'000
LIABILITIES AND EQUITY			
Current liabilities:			
Payables and accrued liabilities	10	14,376,278	12,521,167
Short-term bank loans		6,284,875	7,733,817
Advances from customers		2,700,696	2,615,676
Taxes payable		2,079,967	1,618,863
Current portion of long-term bank loans		263,354	766,875
Amounts due to Unicom Group	14(a)	2,497,388	821,797
Amounts due to China Telecom		1,123,421	1,276,965
Amounts due to related parties		39,992	53,153
Dividend payable		59,224	59,224
Total current liabilities		29,425,195	27,467,537
Long-term liabilities:			
Long-term bank loans		34,258,806	27,151,349
Other long-term liabilities		40,584	102,286
Total liabilities		63,724,585	54,721,172
Minority interests		855,038	883,252
Shareholders' equity:			
Share capital	12	1,331,371	1,331,371
Share premium	12	52,482,127	52,482,127
Reserves	12	601,658	601,658
Retained earnings	12	5,001,466	2,809,246
Shareholders' equity		59,416,622	57,224,402
Total liabilities and equity		123,996,245	112,828,826

CONSOLIDATED STATEMENT OF CASH FLOWS (CONDENSED)

	Unaudited Six Months ended 30 June, 2001 RMB'000
Net cash inflows from operating activities	6,648,661
Net cash outflows from return on investments and servicing of finance	(33,615)
Taxation	(208,720)
Net cash outflows from investing activities	(21,226,747)
Net cash inflows from financing activities	6,830,585
Decrease in cash and cash equivalents	(7,989,836)
Cash and cash equivalents, beginning of period	44,716,685
Cash and cash equivalents, end of period	36,726,849
Analysis of the balances of cash and cash equivalents	
Cash and bank balances	36,726,849

Notes:

(1) Group restructuring and basis of presentation

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 interim financial statements of the Group reflect the consolidated financial position of the Group as of 30 June, 2001 and the consolidated results of operations and cash flows of the Group for the six months ended 30 June, 2001. The interim results of operations for the corresponding period in 2000 were prepared based on the combined results of operations of the predecessor entities or businesses, now comprising the Group, for the six months ended 30 June, 2000. The details of the group restructuring and basis of presentation have been set out in the 2000 annual report of the Company dated 3 April, 2001 (the "Annual Report").

(1) Group restructuring and basis of presentation (Cont'd)

The accompanying interim financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") except that the comparative figures for the cash flow statement were omitted which was not in compliance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("HK SSAP 25"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited permit the deviation from HK SSAP 25 for the first cash flow statement to be included in the interim report in respect of interim financial statements relating to accounting period ended on or after 1 July, 2000 and before 1 July, 2001.

(2) Principal activities

The Group is principally engaged in the provision of telecommunication services, including cellular, paging, long-distance, data and Internet services.

(3) Principal accounting policies

The principal accounting policies adopted in the preparation of the consolidated interim financial statements for the six months ended 30 June, 2001 are the same as those adopted in the Annual Report. In addition, the Group has adopted the new Statements of Standard Accounting Practice No. 26 "Segment reporting", No. 28 "Provisions, contingent liabilities and contingent assets", No. 29 "Intangible assets", No. 30 "Business combinations", No. 31 "Impairment of assets" and No. 32 "Consolidated financial statements and accounting for investments in subsidiaries" effective 1 January, 2001.

The impact of the adoption of the new standards on the Group's consolidated operating results and financial position is not significant and, accordingly, no prior period adjustment has been required.

(4) Revenue

Revenue is primarily comprised of usage fees, monthly fees and connection fees earned by the Group from cellular, paging, long-distance, data and internet services. Tariffs for these service are subject to regulations by various government authorities, including the State Development Planning Commission, the Ministry of Information Industry and the relevant provincial price regulatory authorities.

Revenue is net of business tax, government surcharges and central irrigation construction levy, where applicable.

(5) China-China-Foreign arrangements and their terminations

CCF Arrangements represented the financing arrangement entered into by the predecessor telecommunications businesses of the Group with certain contractual joint venture companies ("CJVs") established in the PRC for the development of the Group's telecommunication networks. All the CCF Arrangements have been terminated before 30 June, 2000 and compensations were paid to the CJVs in the form of cash and share warrants. The details of the CCF Arrangements have been set out in the Annual Report.

As of 30 June, 2001 all the warrants have expired and no warrants have been exercised by these CJVs or their designees.

(6) Taxation

Provision for taxation comprised:

	Unaudited	
	Six Months ended 30 June,	
	2001	2000
	RMB'000	RMB'000
PRC enterprise income tax	998,547	469,525
Deferred taxation	(147,957)	(358,612)
	850,590	110,913

There is no Hong Kong profits tax liability for the six months ended 30 June, 2001 and 2000 as the Group does not have any assessable income sourced from Hong Kong. The PRC operations, or the predecessor entities now comprising the Group, are subject to the standard PRC income tax rate of 33% (2000: 33%) for the six months ended 30 June, 2001, except for certain provincial entities which are subject to local preferential income tax rates. In accordance with a notice from the Ministry of Finance of the PRC, connection fees and certain surcharges, which were previously not subject to income tax, are subject to income tax with effect from the completion of the Global Offering.

(7) Net income per share
(a) Basic net income per share

Basic net income per share for the six months ended 30 June, 2000 has been computed by dividing the net income of RMB171,227,000 by the weighted average number of 9,785,636,028 shares in issue during the period, assuming the Company had been in existence since 1 January, 2000.

Basic net income per share for the six months ended 30 June, 2001 has been computed by dividing the net income of RMB2,192,220,200 by the weighted average number of 12,552,996,070 shares in issue during the period.

(b) Diluted net income per share

For the six months ended 30 June, 2000, the calculation of diluted net income per share has been computed by dividing the net income of RMB171,227,000 by the weighted average number of 9,786,574,988 shares in issue during the period, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares arise from share options granted to the Directors or senior management under the Pre-Global Offering Share Option Scheme, share warrants as described in Note 5 and the over-allotment option granted to the underwriters, which if converted to ordinary shares would decrease profit attributable to shareholders per share.

For the six months ended 30 June, 2001, all potential ordinary shares arise from share options granted under the Pre-Global Offering Share Option Scheme. No dilution was resulted on the net income per share for the current period after taking into account the potential dilutive effect of the conversion of the share options.

(8) Profit appropriation

During the six months ended 30 June, 2001 and 2000, the Group has not made any appropriations to reserves or declared any dividends to their shareholders.

(9) Accounts receivables, net

	Unaudited 30 June, 2001 RMB'000	Audited 31 December, 2000 RMB'000
Accounts receivable	2,978,127	2,216,945
Less: Provision for doubtful debts	(1,000,165)	(671,894)
	1,977,962	1,545,051

The aging analysis of accounts receivable was as follows:

	Unaudited 30 June, 2001 RMB'000	Audited 31 December, 2000 RMB'000
Less than six months	2,193,776	1,970,206
Above six months	784,351	246,739
	2,978,127	2,216,945

(10) Payables and accrued liabilities

As of 30 June, 2001 and 31 December, 2000, all payables and accrued liabilities were aged within one year.

(11) Housing reform

According to the central government policy on housing reform based on a State Council circular issued in 1998, monetary housing subsidies in the form of special cash payments are to be made by certain PRC enterprises to their employees in order to enable them to purchase living quarters. Under this general policy, enterprises are allowed to establish their own housing reform schemes taking into consideration the actual financial capability of the enterprises.

In addition, this central government policy is to be implemented at the provincial and municipal level in accordance with detailed regulations to be formulated by the local government bodies. As of 30 June, 2001, certain local government authorities issued local rules and regulations on the housing reform scheme and others had not. All these rules and regulations do not impose a deadline on the implementation. The Directors of the Group considers that there is no legal obligation to implement the monetary housing subsidies scheme as of 30 June, 2001.

(11) Housing reform (Cont'd)

In addition, the Group has not yet formulated the detailed terms and scope of its monetary housing subsidies scheme. Factors like the number of employees qualified for such scheme, calculation basis of the amount of subsidies to be paid, the length of vesting period, and other relevant terms have not been determined. Accordingly, the total amount of housing subsidies to be paid upon finalisation of such scheme cannot be estimated reliably at this stage.

(12) Consolidated movements in shareholders' equity

	Unaudited					Total
	Six Months ended 30 June, 2001					
	Share capital RMB'000	Share premium RMB'000	Revaluation reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	RMB'000
Shareholders' equity at beginning of period	1,331,371	52,482,127	176,853	424,805	2,809,246	57,224,402
Net increase for the period	—	—	—	—	2,192,220	2,192,220
Shareholders' equity at end of period	1,331,371	52,482,127	176,853	424,805	5,001,466	59,416,622

(13) Commitments
(a) Capital commitments

As of 30 June, 2001, the Group had capital commitments, mainly in relation to the construction of telecommunication networks, as follows:

	Unaudited			Audited
	30 June, 2001			31 December, 2000
	Land and buildings RMB'000	Equipment RMB'000	Total RMB'000	Total RMB'000
Authorised and contracted for	1,010,247	7,253,033	8,263,280	10,747,988
Authorised but not contracted for	38,780	4,985,653	5,024,433	8,498,677
Total	1,049,027	12,238,686	13,287,713	19,246,665

(b) Operating lease commitments

As of 30 June, 2001, the Group had operating lease commitments amounting to RMB1,669 million (31 December, 2000: RMB2,974 million).

(14) Related party transactions

(a) Amounts due to Unicom Group

The following table summarises the activities between the Group and Unicom Group and the resulting balance due to Unicom Group:

	Unaudited Six months ended 30 June, 2001 RMB'000	Audited Year ended 31 December, 2000 RMB'000
Due to Unicom Group, beginning of period	821,797	505,367
Interconnection and roaming revenues	(282,633)	(339,536)
Interconnection and roaming charges	114,553	131,315
Due to Unicom Group arising from network construction costs paid by Unicom Group for the Group	1,288,726	524,651
Bank loans and interests settled by Unicom Group on behalf of the Group	554,945	—
Due to Unicom Group, end of period	2,497,388	821,797

The outstanding amounts were unsecured, non-interest bearing and payable within one year. The average outstanding balances during the six months ended 30 June, 2001 were approximately RMB1,660 million (31 December, 2000: RMB636 million).

(b) Transactions with Unicom Group

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

	Unaudited Six months ended 30 June, 2001 RMB'000	2000 RMB'000
Transactions with Unicom Group:		
Interconnection and roaming revenues	282,633	83,252
Interconnection and roaming charges	114,553	30,508
Rental charges for premises, equipment and facilities	10,731	12,061
Revenue for leasing of transmission line capacity	86,215	—
Commission revenue for sales agency services	7,857	—
Transactions with subsidiaries of Unicom Group:		
Leasing of satellite transmission capacity	31,025	31,197
Purchase of telecom cards	470,482	242,467
Agency fee incurred for procurement of telecommunications equipment	31,592	30,705
Rental for the PRC corporate office	5,066	5,066

(15) Subsequent events

On 11 September, 2001, the Company signed a memorandum of understanding ("MOU") with Unicom Group to lease capacity of the CDMA network being constructed by Unicom Group. Major lease terms specified in the MOU include:

- (a) the Company has the exclusive right to lease and operate the CDMA network capacity from Unicom Group;
- (b) the lease term is one year, renewable at the option of the Company;
- (c) the lease payment is calculated on the basis which will allow Unicom Group to recover the original investment in seven years and achieve an 8% annual return on the capital employed; and
- (d) the Company has the option to add or reduce the capacity leased upon completion of the lease term and to acquire the network assets.

(16) Supplemental financial information

- (a) Balance sheets

	Unaudited 30 June, 2001 RMB'000	Audited 31 December, 2000 RMB'000
Net current assets	29,028,743	30,287,098
Total assets less current liability	94,571,050	85,361,289

- (b) Income statements

	Unaudited Six Months ended 30 June, 2001 RMB'000	2000 RMB'000
Interest income	(1,289,206)	(95,775)
Interest expenses	1,111,745	671,151
Less: amounts capitalised in construction-in-progress	(168,814)	(138,703)
Total interest expenses	942,931	532,448
Provision for doubtful debts	330,147	193,074
Dividends from investment securities	(19,504)	—
Realised losses (gains) on trading securities	10,657	(26,808)
Unrealized losses (gains) on trading securities	12,666	(20,851)
Realized losses (gains) of investment securities	619	(1,351)
Loss on disposal of property, plant and equipment	21,088	20,508
Write-off of property, plant and equipment	51,568	50,155
Provision for impairment of investment securities	2,595	3,866
Written down of inventory to net realisable value	20,508	13,258
Provision for impairment of investment in associated companies	1,219	1,007
Share of loss (profit) from associated companies	806	(3,065)

(16) Supplemental financial information (Cont'd)

(c) Statement of cash flows

Unaudited
Six Months ended
30 June, 2001
RMB'000

Investing activities:

Capital expenditures	(12,943,796)
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Financing activities:

Increase in amounts due to Unicom Group	1,675,591
Proceeds from short-term and long-term bank loans	11,077,394
Repayment of short-term and long-term bank loans	(5,922,400)

Net cash inflows from financing activities	6,830,585
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Significant non-cash transactions:

The Group incurred additional payables of approximately RMB1,325 million to equipment suppliers for construction-in-progress during the six months ended 30 June, 2001.

(17) Segment information

	2001					2000					
	Cellular Business RMB'000	Paging Business RMB'000	Long-distance, Data and Internet Business RMB'000	Unallocated amounts RMB'000	Elimination RMB'000	Total RMB'000	Cellular Business RMB'000	Paging Business RMB'000	Long-distance, Data and Internet Business RMB'000	Unallocated amounts RMB'000	Total RMB'000
Revenue:											
Usage fee	6,592,595	—	825,352	—	—	7,417,947	3,240,697	—	194,962	—	3,435,659
Monthly fee	1,544,698	2,479,948	—	—	—	4,024,646	1,019,296	4,126,354	1,973	—	5,147,623
Connection fee	204,986	1,193	—	—	—	206,179	333,140	7,912	—	—	341,052
Interconnection revenue	552,093	—	408,913	—	—	961,006	248,973	—	44,543	—	293,516
Lease line rental	—	—	118,983	—	—	118,983	—	—	—	—	—
Other services revenue	128,677	54,113	13,081	—	—	195,871	98,257	69,224	—	—	167,481
Total services revenue	9,023,049	2,535,254	1,366,329	—	—	12,924,632	4,940,363	4,203,490	241,478	—	9,385,331
Sales of telecommunication products	427,086	267,208	—	—	—	694,294	314,533	805,034	—	—	1,119,567
Total revenue from external customers	9,450,135	2,802,462	1,366,329	—	—	13,618,926	5,254,896	5,008,524	241,478	—	10,504,898
Intersegment revenue	—	61,309	437,295	—	(498,604)	—	—	—	—	—	—
Total revenue	9,450,135	2,863,771	1,803,624	—	(498,604)	13,618,926	5,254,896	5,008,524	241,478	—	10,504,898
Operating expenses:											
Leased lines	(295,539)	(193,433)	(239,019)	—	211,820	(516,171)	(47,787)	(404,467)	(30,613)	—	(482,867)
Interconnection charges	(883,634)	—	(348,217)	—	224,946	(1,006,905)	(577,907)	—	(42,619)	—	(620,526)
Depreciation and amortization	(2,613,152)	(906,469)	(357,005)	(1,688)	—	(3,878,314)	(1,783,266)	(930,141)	(25,987)	—	(2,739,394)
Personnel	(497,849)	(490,790)	(102,792)	(9,240)	—	(1,100,671)	(170,507)	(663,056)	(3,804)	—	(837,367)
Selling and marketing	(1,098,515)	(265,975)	(203,817)	—	61,309	(1,506,998)	(528,668)	(385,610)	(34,013)	—	(948,291)
General, administrative and other expenses	(1,443,165)	(586,147)	(196,260)	(22,999)	529	(2,248,042)	(660,182)	(880,850)	(19,816)	—	(1,560,848)
Cost of telecommunication products sold	(399,639)	(331,977)	—	—	—	(731,616)	(235,623)	(1,004,792)	—	—	(1,240,415)
Total operating expenses	(7,231,493)	(2,774,791)	(1,447,110)	(33,927)	498,604	(10,988,717)	(4,003,940)	(4,268,916)	(156,852)	—	(8,429,708)
Operating income (loss)	2,218,642	88,980	356,514	(33,927)	—	2,630,209	1,250,956	739,608	84,626	—	2,075,190
Net financial (charges) income	(772,862)	(10,726)	(136,061)	1,254,932	—	335,283	(464,956)	29,038	(755)	—	(436,673)
Loss arising from terminations of CCF Arrangements	—	—	—	—	—	—	(1,184,534)	—	(9,304)	—	(1,193,838)
Other income (expenses), net	38,308	23,254	4,353	(10)	—	65,905	(30,988)	(12,413)	—	—	(43,401)
Income (loss) before taxation and minority interests	1,484,088	101,508	224,806	1,220,995	—	3,031,397	(429,522)	756,233	74,567	—	401,278
Taxation	(641,795)	(112,593)	(96,202)	—	—	(850,590)	154,924	(239,915)	(25,922)	—	(110,913)
Income (loss) before minority interests	842,293	(11,085)	128,604	1,220,995	—	2,180,807	(274,598)	516,318	48,645	—	290,365
Minority interests	—	11,413	—	—	—	11,413	—	(119,138)	—	—	(119,138)
Segment income (loss)	842,293	328	128,604	1,220,995	—	2,192,220	(274,598)	397,180	48,645	—	171,227
Other significant noncash expenses:											
Provision (written back) of doubtful debts	344,777	(24,653)	10,023	—	—	330,147	180,979	12,095	—	—	193,074
Total segment assets	51,253,414	13,604,313	11,054,555	48,083,963	—	123,996,245	23,913,565	16,033,644	3,584,498	48,111,351	91,643,058
Total segment liabilities	50,783,003	4,429,818	8,504,310	7,454	—	63,724,585	32,306,970	7,228,990	2,803,082	168,072	42,507,114
Capital expenditures for segment assets ⁽¹⁾	11,185,598	450,741	1,661,304	971,350	—	14,268,993	10,863,903	399,893	1,266,315	—	12,530,111

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

Independent Review Report



ANDERSEN

Andersen & Co

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To the Board of Directors of China Unicom Limited

INTRODUCTION

We have been instructed by the Company to review the interim report of the Group for the six months ended 30 June, 2001 set out on pages 8 to 21.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") require the preparation of an interim financial report to be in compliance with "Interim financial reporting" issued by the Hong Kong Society of Accountants ("Hong Kong SSAP 25") and the relevant provisions thereof. However, the Hong Kong Listing Rules permit a departure from Hong Kong SSAP 25 in respect of the omission of a statement of cash flows for the six months ended 30 June, 2000 as comparative figures for the first statement of cash flows included in the interim financial report. The interim financial report is the responsibility of, and has been approved by, the directors.

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 the Group's 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

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, 2001.

ANDERSEN & CO

Certified Public Accountants

Hong Kong, 12 September, 2001

Other Information

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save as disclosed herein, the Company confirms that the current company 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 2000 annual report.

TRANSFER TO AND FROM RESERVES

There were no transfers to or from the general reserve of the Company during the six months ended 30 June, 2001.

INTERIM DIVIDEND

It is suggested by the Board of Directors of the Company that no interim dividend for the six months ended 30 June, 2001 be paid.

DIRECTOR'S INTERESTS IN SHARES

As at 30 June, 2001, 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:

<u>Name of Directors</u>	<u>Personal interest</u>
Shi Cuiming	30,000 Ordinary Shares
Li Zhengmao	20,000 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, 2001, one American depository receipts 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, 2001, 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, 2001, 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 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. Further details of the above are set out as follows:

Name of directors	No. of options Granted¹	No. of options exercised during the year	No. 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
Li Zhengmao	292,600	—	292,600
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 six months ended 30 June, 2001 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, 2001 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 Unicom (Hong Kong) Group Limited ("China Unicom (HK)")	—	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 (HK) directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of China Unicom (BVI), in accordance with the Securities (Disclosure of Interest) 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 (HK).

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 Securities (Disclosure of Interests) Ordinance as having an interest in 10% or more of the issued share capital of the Company.

COMPLIANCE WITH THE 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 during the period in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors were not appointed for a specific term but are subject to retirement by notation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the external auditors, Andersen & Co. the accounting principles and practice adopted by the Group and discussed internal control and financial reporting matters including the review of this interim report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By Order of The Board
Ngai Wai Fung
Company Secretary

Hong Kong, 12 September, 2001