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China's telecommunications industry grew with huge momentum in year 2000, driven by the continued steady growth of China's economy and the deepening reform, improved regulations and emergence of an orderly competitive landscape in the industry. China Unicom Limited (the "Company") took full advantage of the above opportunities, and through constant innovation and aggressive expansion, achieved impressive results in its business development, profitability and corporate governance.

The Company achieved impressive financial results in year 2000. Total revenue for year 2000 amounted to RMB23,690 million, up 35.8% from the previous year. Cellular business contributed RMB12,880 million to our revenue, up 120.6% from 1999 and has become the Company's major source of revenue; revenue from long distance, data, and Internet businesses rose 12.9 times from the previous year to reach RMB1,100 million, offering the Company new sources of growth. Cellular revenue as a percentage of total revenue increased from 33.5% in 1999 to 54.4%. Long distance, data, and Internet businesses increased their share of total revenue from 0.5% in 1999 to 4.6%, while the contribution of paging business decreased from 66.0% in 1999 to 41.0%. The rapidly increasing revenue went hand in hand with the effective control over our operating costs, leading to remarkable improvement in operational profitability. Operating margin increased from 16.1% in 1999 to 22.0%. Adjusted EBITDA reached RMB10,960 million, up 68.4% from 1999, and adjusted EBITDA margin increased from 37.3% in 1999 to 46.2%. Net income reached RMB3,230 million, up 2.9 times from 1999, and basic net income per share increased from RMB0.09 in 1999 to RMB0.29 in 2000.

The Company leveraged its unique strength as an integrated competitive telecommunications service provider and its technological and marketing prowess in gaining a strong market position in key business areas such as cellular, data, long distance and paging.

The Company further expanded its GSM network capacity and coverage. Network quality showed marked improvement and GSM services experienced rapid development and strong subscriber growth. By the end of 2000, our cellular subscribers reached 12.772 million, up 207.7% from 1999. Our market share in our service areas rose from 14.2% at the end of 1999 to 22.7%, while our share of net subscriber additions increased to 32.0%.

The Company's long distance, data, IP telephony and Internet networks have achieved national scale in just one year. By the end of 2000, our long distance network reached 226 major cities. Our data, IP telephony and Internet networks expanded to 231 cities, offering leased line, Asynchronous Transfer Mode ("ATM"), Frame Relay ("FR"), Virtual Private Network ("VPN"), and Internet services. As the service area expanded, our various businesses showed promising development trends. In 2000, total outgoing VoIP calls and PSTN long distance calls amounted to 930 million minutes, up 9.3 times from 1999. In addition, 280 million minutes of international incoming calls were received.

The Company's paging business maintained its growth and dominant market position despite the industry's intensified competition. By the end of 2000, our subscribers reached 44.52 million, up 1.02 million from 1999, representing an approximately 54.0% market share.

The Company has completed the construction of the nation's second largest optical fibre transmission network to serve as the common network platform for the Company's cellular, international and domestic long distance, data and Internet businesses. By the end of 2000, the total length of our optical fibre transmission network reached 156,000 km, including 56,000 km of optical fibre backbone transmission network, connecting more than 250 cities nationwide. The Company also actively participated in the construction of international backbone transmission networks, and provided international communications services through the three international gateways of China United Telecommunications Corporation (the "Unicom Group"). Furthermore, we have launched the construction of metropolitan area networks and broadband access networks in 119 cities.

The Company has drawn on international expertise and benchmarked itself against the best practices of the international telecommunications industry. We have established an organisational structure that is customer oriented, suitable for telecommunication operations and supportive to business growth. We have also implemented a senior management share option incentive scheme and refined our internal management systems according to international standards. By leveraging on our integrated strength, optimising resource allocation, improving operational management and tightening cost control, we made further headway in our resource utilisation efficiency and labour productivity. Construction and operating costs are in a downward trend and operational efficiency attained significant improvement.

In June 2000, after a series of restructuring and the resolution of various issues, the Company successfully completed its initial public offering and dual listing on the New York Stock Exchange and Hong Kong Stock Exchange, raising approximately US\$5.65 billion. This landmark IPO was the largest ever non-Japan Asia equity offering and ranked among the top ten equity offerings ever in the world. It is also recognised as the best equity offering, best privatisation and best IPO of 2000 by internationally renowned financial and legal magazines such as *International Finance Review*, *International Finance Law Review*, *Finance Asia* and *Financial Intelligence Asia*.

The 21st century marks the beginning of a brand new phase of development of China's telecommunications industry. The acceleration of the country's economic growth and transition to an information society, constant emergence of new technologies and services, the development of a new competitive landscape, and particularly China's pending accession into the WTO, all present significant new opportunities and challenges to the Company.

Looking ahead, I am full of confidence in the future success of China Unicom Limited. The immense space for growth of the Chinese telecommunications industry, the gradual improvement of the industry's policies and regulations and particularly, government policies such as asymmetric regulation aimed at breaking up monopolies and encouraging competition, all favour the rapid development of competitive operators such as China Unicom Limited. As an integrated competitive telecommunications company, we have an innovative and increasingly sophisticated management team, a highly motivated workforce, well established operational management, advanced national network infrastructure and a reputable corporate image and brand name, all of which will enable the Company to seize the tremendous opportunities in China's telecommunications market to achieve a leap in our development.

In the face of these opportunities and challenges and taking into account of our ultimate goal of maximising our shareholders' value, we will continue to introduce innovations in our operating system, management, technology and services, and apply effective strategies in business development, network construction, sales and marketing, human resource and international cooperation to rapidly develop the Company into a major first class international telecommunications operator.

We will continue to focus on cellular, data and international and domestic long distance businesses, accelerate network construction, develop integrated businesses and fully leverage on this unique integrated strength.

Based on the strategy of central co-ordination, prioritization, advanced planning, and resource sharing, we will construct and perfect the national optical fibre backbone transmission network, GSM cellular network, PSTN long distance network, data backbone, IP telephony network and Internet. We will also accelerate the construction of the integrated access network and the two-way paging and information paging networks while optimising the existing paging network.

We will target individual customer groups and through measures such as branding, service, price and bundled sales, to establish an integrated system of direct sales, distribution and commissioned sales. We will also focus on expanding the high-end customer business in addition to services tailored for the mass market so as to raise our market share in all business segments.

We will implement effective incentive scheme, promote new performance evaluation standards and conduct reforms in our operating, human resource, compensation and welfare systems. New training initiatives will also be launched to upgrade the skills and quality of our management and technical personnel teams.

We will also strengthen cooperation with foreign telecommunications enterprises through continued formation of international strategic partnerships and joint ventures to jointly develop new services, network resources and customers and consequently enhance our competitive edge.

We are considering the acquisition of high quality cellular assets from our parent company at an appropriate time to establish a nationwide footprint.

The Unicom Group has the exclusive right to construct and operate CDMA networks in China. The Company plans to lease network capacity on an exclusive basis from the Unicom Group at an appropriate time. We also have the option to acquire the CDMA network assets from the Unicom Group. We believe that the tremendous growth opportunities in the Chinese telecommunications market can support the rapid growth of both GSM and CDMA services.

Finally, on behalf of the Board of Directors, I would like to extend our sincere thanks for the interests and supports we have received from all our shareholders and the society at large. I would also like to thank all the management team members and employees of the Company for their dedication and contribution.

Yang Xian Zu
Chairman

Hong Kong, 3 April, 2001



Integrated Businesses

Integrated network,

Integrated services,

Integrated businesses.



A unified broadband optical fibre

transmission network platform

A unified sales and customer service

network

A diversified range of cellular, international

and domestic long distance, data, Internet

and paging businesses