

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