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Supported by the rapidly developing Chinese economy, deepening reforms in the telecommunications industry and the standardization and restructuring of the regulatory environment in China, China Unicom's key businesses enjoyed significant growth as evidenced by the remarkable operating results achieved in 2001. Both the integrated capabilities and core competitiveness were significantly enhanced with the proactive and consistent application of our strategy – "Establishing New Mechanisms; Constructing New Networks; Adopting High Technologies; Realizing High Growth and Developing Integrated Businesses". Initiatives were undertaken to further reform and enhance our internal management. While China Unicom's cellular business continued its robust growth, international and domestic long distance, data and Internet businesses have also demonstrated an accelerating growth. The market share attributable to various business segments continued to expand, reflecting the uniqueness and advantage of China Unicom that is positioned as the only integrated telecommunications service operator in Mainland China.

Operating results were remarkable in 2001. Total operating revenue for the year was RMB 29.39 billion, representing an increase of 24.1% from the previous year. Of which, the service revenue was RMB 28.16 billion, a 29.3% increase compared with the one in 2000. In the total revenue generated,

revenue from the cellular business reached RMB 21.33 billion, up 65.5% from that in 2000. The revenue share from the cellular business increased substantially, up to 72.5% in 2001 as compared with 54.4% in 2000. In addition, the revenue share from the long distance, data and Internet businesses also increased to 11.3% in 2001 as compared with 4.6% in 2000, with the total amount of RMB 3.31 billion, rose 201.8% from the previous year. However, the revenue share of the paging business declined from 41.0% in 2000 to 16.2% in 2001. The EBITDA rose 23.4% to RMB13.53 billion and the margin of EBITDA reached 46.0% in 2001. The Company's net profit in 2001 was RMB 4.46 billion, a 37.8% increase as compared with the one in 2000. Earnings per share rose 24.1% from RMB 0.29 in 2000 to RMB 0.36 in 2001.

China Unicom's key businesses sustained a rapid growth in 2001. Subscribers of GSM cellular continued to grow rapidly to 27.033 million by 31 December 2001, 111.7% higher than the one in 2000. The market share in terms of GSM cellular subscribers in China Unicom's service areas increased from 22.7% in 2000 to 28.5% in 2001, and the market share in terms of net subscriber additions reached 37.2% in 2001. The total usage volume in GSM cellular business reached 38.32 billion minutes in 2001, representing a year-on-year growth rate of 117.4%. Based on the market demand, the Company continued to increase its GSM network capacity and improve its service



qualities through constructing new network, adjusting voice traffic and optimizing network. During 2001, our parent company, China United Telecommunications Corporation ("Unicom Group") successfully completed and launched the first phase of CDMA network. In January 2002, China Unicom commenced the lease of CDMA network capacity in the Company's service areas from its parent company. Meanwhile, it adopted a differentiated sale/marketing strategy that is designed to target different customer segments to further increase the Company's market penetration.

China Unicom's long distance, data and Internet networks have reached nationwide coverage. Its transmission capabilities have also been greatly enhanced. The outgoing long distance calls through PSTN and IP telephony services reached 6.41 billion minutes, up 5.9 times from the previous year. Its market share increased from 1.3% in 2000 to 7.7% in 2001. The total international incoming calls were 1.23 billion minutes, up 3.4 times from the previous year.

Accelerating pace of cellular substitution has led to a significant decline of our paging subscriber base. At the end of 2001, the number of paging subscribers of China Unicom decreased from 44.52 million in 2000 to 32.907 million in 2001. Nevertheless, China Unicom still maintained its dominant position in the paging market in Mainland China.

China Unicom's optical fiber transmission network has achieved a rapid expansion. As of 31 December 2001, the Company's network has reached a total length of 333,000 km, representing an increase of 113.5% from the previous year. Of which, the optical fiber backbone transmission network has a total length of 78,000 km, up 39.3% from 2000. China Unicom's optical fiber transmission network provides a solid foundation for the future rapid growth of our businesses.

With the aim of becoming a world-class integrated telecommunications operator, the Company has launched various reform measures to constantly increase our shareholders' value. The organization structure at our provincial branches has been improved, becoming more market-oriented and suitable to meet the requirements for business development. We have established and implemented performance-based evaluation systems with overall appraisal measures based on operating efficiency and profitability, as well as related incentive programs to improve the Company's incentive and restraint mechanisms. Significant efforts were made to attract talents to the Company by conducting open recruitment in both China and abroad in order to increase our competitiveness. Productivity was improved as a result of workforce optimization and streamlining. China Unicom is committed to establish a management team of high caliber. Great

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We will also strengthen the establishment of corporate culture, talents recruitment and staff training in order to build a workforce with high caliber.

emphasis was placed on staff training even at the Company's senior management level. We also implemented international quality assurance system to standardize internal management. We launched a "Servicing Excellence, Customer Satisfaction" campaign that elevated the importance of customer service across the Company. We made further headway in operating profitability by improving financial management, centralizing fund allocations and tightening cost controls. On 1 June 2001, the Company became a constituent stock to Hong Kong Heng Seng Index, highlighting the new achievement of China Unicom and its importance in international capital markets.

China's official accession to the World Trade Organization last December presents unprecedented development opportunities as well as new challenges. The competition between China Unicom and foreign companies on talents and core competitiveness will become the focus of future development after foreign companies entering telecommunications markets in China. The entrance into the WTO will further accelerate the pace of the country's economic growth and generate increasing demand for telecommunications services. It also provides the Company with new opportunities to compete in the international telecommunications market, setting the stage for the realization of the Company's international strategies. Facing

the new market environment, we will adopt an active approach to enhance our management standards and core competency, with an aim to build the Company into a world-class integrated telecommunications service operator.

To accelerate cellular business in 2002, we will adopt new technology, identify new business and apply a differentiated business strategy that is based on different market needs for cellular services. The differentiated strategy will ensure us with a coordinating growth between CDMA and GSM networks. It will also ensure us with a continuous high growth rate in terms of cellular subscriber numbers as well as our operating efficiency. We will continue our efforts to ensure the success of CDMA business development by enhancing network coverage, technology upgrade, sales and marketing and customer services. While operating CDMA network, the Company will also focus on optimizing its GSM network, improving coverage quality, increasing network utilization, upgrading sale and marketing and improving service standards.

In order to fully leverage the advantage of having a uniform network platform for various businesses, we will ensure the unity, completeness and technology advancement of our optical fiber transmission network. This can be achieved by optimizing the network

