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With the Objective to Become a

World-Class

Integrated Telecommunications Operator



Annual report 2001

China Unicom Limited

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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

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 marketoriented 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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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

Chairman's Statement

structure and facilities, strengthening the network maintenance and management, so as to provide an underlying network platform for the Company's various businesses. We will devote great efforts to develop data and long distance businesses with an emphasis on Internet and e-commerce development. It is our objective to significantly expand our market share, customer base, revenue and profit from the long distance, the data and the Internet businesses, making it an important driver for the further growth of the Company's revenue.

Based on the purpose to sustain and expand the traditional paging market, we will actively develop new services in the paging business. Measures such as adjusting the network structure, streamlining staff and restructuring the operational system, as well as stringent control of capital expenditure will be implemented to address the concern of slowdown in the paging business. We will also optimize the network and staff resources to stabilize the operating efficiency in the paging business.

With the objective to become a world-class integrated telecommunications operator and to maximize our shareholders' value, we will establish a more effective corporate governance structure and deploy human resources. This will allow us to best address the need of business growth and provide

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more market-oriented services. We will focus our efforts on improving the return on investments and the return on equity. We will actively implement the comprehensive budget management and stringent control over the Company's operating expenses. Mechanisms will be established to optimize the Company's organizational structure and facilities, establish and improve the internal control system and incentive mechanisms that meet international standards to improve the Company's operating efficiency. We will promote the application of information technology throughout the Company, and enhance the management expertise. We will also strengthen the establishment of corporate culture, talents recruitment and staff training in order to build a workforce with high caliber.

China Unicom is considering the acquisition of GSM cellular businesses and other assets in the remaining 18 provinces in Mainland China from its parent company at an appropriate time. This will assist the Company to set up a solid foundation for its future business development.

We will take proactive steps to deepen and broaden the overall cooperation with foreign companies in ways that are mutually beneficial. We believe it will strengthen our market competitiveness in the world.

Looking ahead, we have full confidence in the future prospects of the Company. Given the Company's significant growth potential, the Board of Directors believes that the Company is well positioned to create new value for our shareholders.

On behalf of the Board of Directors, I would like to express my sincere thanks for the interests and supports from both shareholders and the society at large. I would also like to express my thanks to both the management team and employees of the Company for their consistent hard work.

Yang Xian Zu

Chairman

Hong Kong 27 March 2002