

Rapidly Rising Market Shares

Business Review

I. SUMMARY

The Company is the only integrated telecommunications operator in China, engaging in a wide range of telecommunications businesses, covering cellular communication, international and domestic long distance, data, Internet and paging. Since the listing of its shares in 2000, the Company has vigorously developed its telecommunications services. Its market shares rose substantially, and its position as a leading integrated operator was further strengthened.

The Company's cellular communication business sustained its recent trend of strong growth. As of 31 December 2001, there were 27.033 million GSM subscribers, up 14.261 million or 111.7% year-on-year (the end of 2000: 12.772 million subscribers). The Company's market share in its service areas increased to 28.5% (2000: 22.7%) and its share in net addition market increased to 37.2% (2000: 32.0%). The Company devoted ample resources to expand wireless data service. In 2001, the volume of short messages transmitted reached 1.08 billion. The Company has entered into GSM international roaming agreements with 147 operators in 56 countries and regions. With effect from January, 2002, the Company leased capacity of the CDMA network from its parent company on an exclusive basis. The CDMA network was constructed by the parent company as authorized by the Chinese Government.

The Company's international and domestic long distance business grew rapidly. The number of usage duration for outgoing international and domestic long distance calls increased 5.9 times year-on-year to 6.41 billion minutes (2000: 0.93 billion minutes). Of which, the number of usage

duration for outgoing PSTN long distance calls increased to 2.72 billion minutes (2000: 0.24 billion minutes), whilst the number of usage duration for outgoing IP calls increased to 3.69 billion minutes (2000: 0.69 billion minutes). The number of usage duration for incoming international long distance calls increased 3.4 times year-on-year to 1.23 billion minutes (2000: 0.28 billion minutes). The Company offers leased line services, and a total of 2350 x 2Mbps bandwidth were leased out on an accumulated basis.

Data and Internet businesses also witnessed swift expansion. The Company offers data carrier services through asynchronous transfer mode ("ATM") and frame relay ("FR"). A total of 826 x 2Mbps bandwidth were leased out on an accumulated basis. The Company also provides dedicated line and dial-up Internet access, Internet data centre ("IDC") and other e-Commerce services. Internet subscribers increased to 3.544 million (2000: 415 thousand).

Although a substantial decrease in the number of paging subscribers was recorded for the year under review, the Company was able to maintain its dominant position in the market with a paging subscribers base of 32.907 million as of 31 December 2001.

The Company has a state-of-art broadband optical fibre transmission network with nationwide coverage. The network, together with the core ATM+IP switching network, provides a powerful platform that supports the extensive telecommunications services of the Company. As of 31 December 2001, the Company's long distance optical fibre backbone transmission network reached 78 thousand kilometers in length, covering 303 cities across the country, and the total

length of its optical fibre transmission network reached 333 thousand kilometers.

The Company offers high quality and efficient customer services. Through a series of efforts from establishing the brand name as an integrated telecommunications operator, the setting up of sales and marketing teams targeting major customers and the launching of nationwide customer service hotline "1001", the Company offers differentiated and competitive services. By strengthening customer services management, quality of service and the customer satisfaction towards the Company's services were enhanced.

The Company always emphasizes on research and development of new technologies and new businesses. Latest trends in the development of telecommunications technologies are closely monitored. Cooperation with telecommunications operators within and outside the PRC has been bolstered. An integrated business platform is being actively developed while research and development are committed to the exploring of telecommunications businesses with high profitability and growth potential. In 2001, the Company established a new business development center and a wireless data services research center, which were responsible for the successful development of new businesses such as unified account service based on integrated intelligent network, consolidated virtual private network ("VPN") and wireless data service "UNI-INFO".

The management of the Company believes that the enormous potential of China's telecommunications market and the diversified demand of its subscribers create excellent opportunities for the Company to attract more quality customers and maintain its fast growing trend in the future.

China Unicom Limited

II. BUSINESS REVIEW

1. Fast growing cellular communication business

Products and services

The Company offers premium post-paid and pre-paid GSM cellular communication services. Apart from basic voice services, the Company also offers new services such as SMS, WAP, GPRS (commercial pilot scheme), "UNI-INFO", and bundled services with PSTN/VoIP long distance.

In 2001, "UNI-INFO" was launched as the unified brand for the wireless data business, which at the present offers, mainly, information subscriptions and broadcasting requests through the SMS platform. Through the Company's Internet platform with "165" as dial-up access number, and a close co-operation with Internet content providers ("ICP") and Internet service providers ("ISP"), such as Sina, Sohu and Netease, the Company offers value-added wireless data services to its customers in six major categories, namely news, personal information management, stock

trading, entertainment, location-oriented services and industry applications.

The Company has a high quality GSM network. In 2001, call-completion rate and call-drop rate of the Company's GSM network were 97.0% and 0.2%, respectively.

Subscriber base

As of 31 December 2001, the Company had a total of 27.033 million GSM cellular subscribers, up 14.261 million or 111.7% year-on-year (the end of 2000: 12.772 million). The Company's market share in its service areas increased to 28.5% (2000: 22.7%), whilst the market share in net addition market increased to 37.2% (2000: 32.0%). Of which, post-paid subscribers reached 16.489 million, an increase of 5.888 million or 55.5% year-on-year (the end of 2000:10.601 million). Pre-paid subscribers increased by 8.374 million or 3.9 times to 10.544 million (the end of 2000: 2.170 million). The proportion of pre-paid subscribers to the total number of subscribers increased to 39.0% (2000: 17.0%).

16

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4.2

2000

2001

Market Share

GSM Subscribers and

Subscribers (In million)

→ Market Share (%)

28.5%



The rapid growth in GSM subscribers was mainly attributable to continuous enhancement of network quality, tailor-made services for different segments of customers, cancellation of connection fee and the continuous fall of handset prices.

Minutes of usage

Following a substantial increase in the number of subscribers, total minutes of usage ("MOU") for GSM subscribers in 2001 reached 38.32 billion minutes, an increase of 117.4% year-on-year (2000: 17.63 billion minutes).

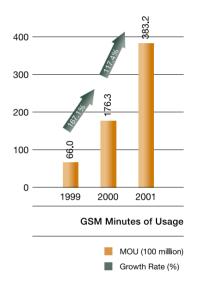
As of 31 December 2001, the volume of short messages transmitted reached 1.08 billion. The SMS business has assumed an important role to attract customers to the Company's services, and has contributed to the increase in the Company's MOU. With the interconnection between the Company's SMS platform and other operators' platform, the Company's SMS service is expected to continue rapid growth.

Average MOU and average revenue per subscriber per month ("ARPU")

In 2001, the average MOU per subscriber per month for the Company was 161.2 minutes, fell 18.3 minutes or 10.2 % year-on-year (2000: 179.5 minutes), and fell only 0.9 minutes from 162.1 minutes in the first half of 2001 as mentioned in the interim report. Of which, post-paid MOU was 187.8 minutes, fell 0.3 minutes year-on-year (2000: 188.1 minutes), whilst pre-paid

MOU was 89.9 minutes, fell 1.0 minutes year-on-year (2000: 90.9 minutes). Since pre-paid subscribers accounted for a higher percentage of the total number of new subscribers, and pre-paid MOU was lower than the post-paid MOU, blended MOU for new subscribers was thus lower, which was attributable to the fall in blended MOU.

In 2001, the average revenue per subscriber per month ("ARPU") for the Company was RMB 86.3, less RMB 38.0 or 30.6% (2000: RMB 124.3), and RMB 6.2 less than that in the first half of 2001 as mentioned in the interim report. Of which, ARPU for post-paid subscribers was RMB 94.8, less RMB 34.2

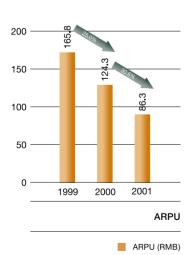


17



18

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MOU (minutes)

(2000: RMB 129.0). ARPU for pre-paid subscribers was RMB 63.4, less RMB 11.7 (2000: RMB 75.1). The decrease in ARPU was attributable to, first, an increase in the proportion of pre-paid subscribers to the total number of subscribers and a fall in the average MOU, second, competition in the market being increasingly intensive, and, third, cancellation of connection fee and additional telecommunications surcharges.

During the second half of the year, the declining rate in ARPU had substantially slowed down. The Company believes that its cellular business income will continue to grow steadily.

Churn rate

In 2001, the churn rate of the Company was 16.3%, up significantly when compared with 9.5% in 2000. The increase was attributable to changes in the demand of subscribers for communication services, with some subscribers switching to pre-paid services. On the other hand, individual consumers are spending their money in a more mature manner. With the reduction in the connection fee, the switching cost became much less than before, resulting in more frequent switches between networks.

Development strategies

In 2002, the development of the Company's GSM cellular communication network will be focused on the optimization

of the network, enhancement of the network operation quality, and the development of wireless data business and other value-added businesses. In order to increase its market share for GSM subscribers and realize growth in both subscribers and profitability, the Company will adopt sales and marketing strategies concentrating on market segmentation and bundled sales, introduce retention programs focusing on quality service and wireless data service to promote customer loyalty and satisfaction and secure relationships with high usage subscribers, and at the same time seek to expand in the mass market through pre-paid services.

In January 2002, the Company started to lease capacity of the CDMA network in the Company's service areas from the parent company on an exclusive basis. By the adoption of different sales and marketing strategies for different customer segments, provision of quality voice and customer services, as well as new wireless data services to attract high usage customers, the Company will obtain more competitive advantages in the cellular market in the PRC. The Company believes that, the cellular market in the PRC, characterized by its enormous scale and diversified demand of subscribers, will be able to support the parallel development of both GSM and CDMA technologies. The operation of the CDMA network is in line with the development strategies of the Company.





International and Domestic Long Distance Business

2. Swift development in international and domestic long distance business

International and domestic long distance business

The total minutes of the Company's outgoing international and domestic long distance calls increased to 6.41 billion minutes, up 5.9 times year-on-year (2000: 0.93 billion minutes). Total minutes of the international incoming calls were 1.23 billion minutes, up 3.4 times year-on-year (2000: 0.28 billion minutes). Both international and domestic long distance businesses posted strong growth.

PSTN long distance business

The Company's PSTN long distance business recorded robust growth. As of 31 December 2001, PSTN long distance business covered 304 cities, representing 90% of 338 cities across the country. There were a total of 4.528 million registered subscribers.

In 2001, the total minutes of PSTN outgoing long distance calls increased by 10.3 times year-on-year to 2.72 billion minutes (2000: 0.24 billion minutes). Of which, domestic long distance calls reached 2.64 billion minutes, whilst international, together with Hong Kong, Macau and Taiwan long distance calls reached 80 million minutes. The total minutes of incoming international calls reached 1.16 billion minutes.

IP telephony

The Company's IP telephony business continued to grow rapidly. As of 31 December 2001, the number of cities covered by the Company's IP telephone network increased to 320 (the end of 2000: 231), and international roaming was available in 50 countries and regions.

In 2001, the total minutes of IP outgoing long distance calls increased by 4.3 times year-on-year to 3.69 billion minutes (2000: 0.69 billion minutes). Of which, domestic long distance calls reached 3.52 billion minutes, whilst international, together with Hong Kong, Macau and Taiwan long distance calls reached 0.17 billion minutes. The total minutes of incoming international calls reached 70 million minutes.

Leased line business

The Company offers leased line services to its subscribers. The Company may provide leased lines of different bandwidth according to the requirements of the subscribers. As of 31 December, 2001, total bandwidth leased amounted to 2350 x 2Mbps.



The Company will vigorously implement a corporate customer-oriented marketing strategy and provide high quality and inexpensive communication services to increase the Company's market share for the long distance business.

Development strategies

The Company will vigorously implement a corporate customer-oriented marketing strategy and provide high quality and inexpensive communication services to increase the Company's market share for the long distance business. In order to rapidly develop the Company's long distance business with limited access resources, the Company's direct sales force will provide tailor-made services and innovative communication solutions to corporate customers so as to satisfy their diverse and increasing communication needs. As to the mass market, the Company will seek expansion through contract and prepaid services, as well as expansion in the sales channel by way of distributorship. At the same time, the Company will explore opportunities to increase incoming calls from Hong Kong, Macau, Taiwan and international markets, so as to fully capitalize on the Company's network capacity.

