

Chairman's Statement



“ Integrated development with our focus on the cellular business; coordinated efforts in developing the differentiated operations of the two networks; priority on efficiency and profitability to increase our scale and strength. ”

Wang Jianzhou
Chairman,
CEO & President

Since its listing in June 2000, the development of the Company has progressed by leaps and bounds, with its integrated capabilities strengthening significantly. I felt deeply honored to be appointed as the new Chairman and Chief Executive Officer of the Company in August 2003 as it reflected the trust of the shareholders and fellow directors in me. With the numerous new challenges faced by the Company in its development, I found myself charged with great responsibilities.

During the past year, the Company achieved encouraging operating results through the joint efforts of the Board of Directors, the management team and all members of staff.

For the year ended 31 December 2003, operating revenue of the Company was RMB 67.64 billion, representing an increase of 66.7% from 2002. EBITDA for the year rose 34.0% to RMB 24.90 billion. Operating profit in 2003 rose 16.3% to RMB 8.51 billion. Net profit in 2003 fell 8.3% to RMB 4.22 billion. Earnings per share decreased by RMB 0.03 from RMB 0.366 in 2002 to RMB 0.336 in 2003. Without taking account of RMB 0.56 billion impairment loss and assets write-off of the Paging Business and RMB 0.66 billion loss on sale of Guoxin Paging, net profit of the Company was RMB 5.08 billion, up 10.5% from 2002.

The Board of Directors recommended the payment of final dividend for 2003 at RMB 0.10 per share. Subject to the approval of the recommendation for dividend payment by the general meeting, the Company will pay out dividends on or before 5 June 2004.

Review for 2003

In accordance with the operating principles of "integrated development with our focus on the cellular business; coordinated efforts in developing the differentiated operations of the two networks; priority on efficiency and profitability to increase our scale and strength," the Company overcame the adverse effect of SARS on the Company's operation and achieved rapid growth for its core business. As at the end of 2003, the Company had a total of 80.833 million cellular subscribers, an increase of 35.4% from the end of 2002. Of the total cellular subscribers, CDMA cellular subscribers reached 16.910 million, an increase of 170.8% from the end of 2002. In terms of cellular subscribers, the Company has become the third largest telecommunications operator in the world.

Significant improvement in the operation of CDMA business, whilst the GSM business continued to grow

The rapid growth in the CDMA and GSM businesses continued in 2003. Revenue from the cellular business for the year reached RMB 59.75

billion, up 88.1% from 2002. Of the total cellular revenue, revenue from the GSM business was RMB 41.17 billion, an increase of 46.5% from 2002. Operating profit for the segment rose 14.2% to RMB 8.72 billion. Revenue from the CDMA business was RMB 18.58 billion, an increase of 409.3% from 2002. Operating loss for the segment decreased from RMB 0.99 billion in 2002 to RMB 0.29 billion in 2003.

In March 2003, the CDMA network was upgraded from CDMA95A to CDMA1X, following which network coverage and voice quality improved significantly. Furthermore, the Company transformed its CDMA business model mainly by gradually reducing handsets subsidies and encouraging subscribers to purchase their own handsets. By leveraging on the technical superiority of high speed data transmission provided by the CDMA1X network and the launch of "U-Max" value-added data services, the Company successfully satisfied various demands from corporate subscribers and young subscribers and enhanced its brand image. The Company launched the "Green Tornado" marketing campaign in full in July 2003, which stimulated rapid growth in the number of subscribers. Through the implementation of innovative marketing and sales strategies, the net addition of CDMA subscribers for the year reached 10.665 million. The CDMA business started to record profit in the third quarter.

Along with the rapid growth of the CDMA business, the Company strengthened its development of the GSM business. Through the exploration of network potential, the optimization of network and the further enhancement of network quality and service standards, the steady development of our GSM business has been sustained. The net addition of GSM subscribers for the year reached 10.458 million.

During the past year, the increase in cellular revenue, in particular, revenue from the CDMA business, became a major source of revenue growth of the Company.

Rapid growth in long distance business and diversification in data and Internet businesses

The operation standard of the Company's long distance, data and Internet businesses has risen steadily. Customer service has been further improved and new progress has been achieved in the interconnection with other operators. As the international and domestic long distance telephone business grew rapidly, the total minutes of outgoing calls for the year reached 19.83 billion minutes, an increase of 49.7% from that in 2002, whilst our market share increased from 11.6% in 2002 to 14% in 2003. The Company is committed to building "165", "Ruyi mailbox", "UNI-VIDEO" and "Unicom Internet Plaza" as well-known brands through proactive

sales and marketing activities. The net additions of subscribers to Internet and "Ruyi mailbox" services for the year were 5.140 million and 6.241 million respectively.

New horizons in business expansion and technology development

During the past year, the Company launched "U-Max" brand for its wireless data service, as well as other sub-brands for its various services. The successive launch of U-mail, U-Info, U-Net, U-Magic and U-Map has brought unprecedented experience of cellular communication to its subscribers, which facilitated the rapid development of the CDMA wireless data service.

In order to allow the GSM and CDMA networks to complement each other with their respective advantages, the Company proactively organized and conducted research and development programs on the implementation of the GSM-CDMA dual mode system and successfully completed the technical testing on the system in November 2003. The GSM-CDMA dual mode system is the first of its kind developed in the global cellular communication industry. The technology allows GSM subscribers to use the services provided by the CDMA network and vice versa, and effectively facilitates the coordinated development of both GSM and CDMA businesses.

The achievement of positive free cash flow and further improvement in overall financial status

The Company's free cash flow (net cash inflow from operating activities minus capital expenditure) improved significantly from an outflow of RMB 5.89 billion in 2002 to an inflow of RMB 2.81 billion in 2003. Early last year, the Company proposed the achievement of positive free cash flow as a target for budgetary control. Through the preparation of reasonable budgetary plans, control on capital investment was tightened. The weighting of operating results in our performance appraisal was increased, so that management of the Company placed more emphasis on operating efficiency. Operating and management expenses were controlled through the adoption of various measures to strengthen cost management. The Company further capitalized on the low interest rate environment prevailing in the international financial market, and raised US\$700 million from a syndicated loan for the first time. The fund-raising effort was well received by various international financial institutions and the Company successfully borrowed at very competitive interest rates. The proceeds were all applied in the construction of network infrastructure projects and in the improvement of the operation of the Company. Finance costs of the

Company were thus reduced and debt structure improved. The achievement of positive free cash flow during the year signified a new era for the development of the Company.

Acquisition of cellular businesses in 9 provinces including Shanxi and sale of Guoxin Paging

On 31 December 2003, the Company completed the acquisition of cellular businesses in 9 provinces and autonomous regions including Shanxi (the "Acquired Businesses") from and the sale of Guoxin Paging to Unicom Group. The operating performance of the Acquired Businesses for the year was satisfactory. For the year ended 31 December 2003, the operating revenue of the Acquired Businesses was RMB 8.14 billion, representing an increase of 53.0% from 2002. The Acquired Businesses had a net loss of RMB 0.12 billion in 2002 but achieved a turnaround with a net profit of RMB 0.35 billion in 2003.

Through the acquisition of the Acquired Businesses, the Company has expanded its service area and subscriber base. The service area of the Company has been expanded to cover 30 provinces, municipalities and autonomous regions in the PRC (i.e. the whole of the PRC except Guizhou). This in turn laid a solid foundation for the rapid development of the Company's cellular communication businesses.

Through the sale of Guoxin Paging to Unicom Group, the financial condition of the Company improved. The acquisition of the Acquired Businesses and the sale of Guoxin Paging for cash lifted earnings per share and enhanced shareholder value. The success of the acquisition and the sale further strengthened the competitiveness of the Company in the market.

Upon the completion of the acquisition of the Acquired Businesses and the sale of Guoxin Paging, as of 31 December 2003, the Company had 91.515 million cellular subscribers on a pro forma combined basis in 30 provinces, municipalities and autonomous regions. Of such cellular subscribers, the number of CDMA cellular subscribers reached 18.946 million. The operating revenue of the Company for the year would have been RMB 72.33 billion, an increase of 40.3% from 2002, operating profit would have increased by 6.5% to RMB 10.43 billion and net profit would have risen by 6.0% to RMB 5.77 billion.

Continuous perfection of corporate governance

In accordance with the regulatory requirements imposed by securities administration authorities in Hong Kong and New York, the Company continued to perfect its corporate governance and information disclosure. Disclosure of operation data on a monthly basis and financial

figures on a quarterly basis was made, which enhanced the transparency of the Company's business operation. An independent director was added to the Company's Board of Directors to keep the Company's operation in line with the interests of public shareholders. The Company's Board of Directors have set up an Audit Committee and a Remuneration Committee, the Chairman of both of which is required to be an independent non-executive director. The independent non-executive directors played a very important role in the Company's financial audit and the determination of remuneration for the senior executives of the Company. The Company also formulated and implemented the "Disclosure Controls and Procedures" so as to ensure the accuracy and reliability of information disclosed to the public by the Company.

Developing corporate culture

In 2003, the Company summarized and concluded a set of values and beliefs embedded in our corporate culture. Corporate culture is comprised of the common values and model of behavior shared by all members of staff of an enterprise. We consider that the development of a corporate culture unique to China Unicom has practical and lasting significance because it preserves the unity of spirit of the Company's staff as a whole and

strengthens the sense of belonging in the Company. During the past year, we carefully reviewed the history of the Company's development and drew precious lessons from experience. "Competitiveness, innovation, passion and integrity" represent the core ethos of our corporate culture. An "Outline on the corporate culture system of China Unicom" has been prepared accordingly.

Commitment to corporate social responsibility

The success of the Company is built upon its commitment to its corporate social responsibility. During the outbreak of SARS in the first half of 2003, the Company actively made donations to various charitable initiatives in support of the nationwide battle against SARS. Staff from different branches in China participated in various charitable social activities such as donating to "Hope Primary School" and the coordination of volunteer services. Through the participation in such charitable activities, the Company aimed to fulfill its obligation to the society as a corporate citizen and the social reputation of the Company was further enhanced. At the same time, the Company's staff has become more caring.

Prospects

Looking forward, we expect the economy of the PRC to continue to sustain its rapid growth in 2004. Demand in the Chinese telecommunication market remains strong, which will provide ample space for the Company's development. We believe that following the expected improvement of the regulatory and market environment in the telecommunication industry in the PRC, the condition of interconnection will further improve and will provide a better external environment for the Company's participation in market competition. However, the Company is facing greater challenges as competition in the market becomes increasingly intense.

We will fully capitalize on the unique features of GSM and CDMA and coordinate the development of the two networks in an orderly manner. In accordance with the market positioning of "enterprise, infotainment, health-conscious and trendy" for the CDMA business, we will leverage the technological superiority of its "U-Max" data business to gain a competitive edge in the market, and expand the use of applications for the data business. In accordance with the market positioning of the GSM business as "price-sensitive and mass market", we will continue to develop new services, strengthen client liaison activities, and maintain stability in operating revenue and profit for the GSM business.

The Company will proactively prepare for the launch of the GSM-CDMA dual-model system when appropriate. The launch of the GSM-CDMA dual-mode system and the "Worldwind" dual-mode handsets will bring a greater number of new applications to cellular subscribers that will create new user value. The use of the "Worldwind" dual-mode handsets will deliver genuine roaming services on a global basis. I believe that the launch of dual-mode handsets will bring forth new profit growth for the Company's cellular communication business.

Long distance, data and Internet businesses will fully leverage on the unified platform for the development of telecommunication businesses such as "UNI-VIDEO" video conference and video phone services, broadband Internet and "Ruyi mailbox". Expansion in the scale of the market, increase in revenue and adequate use on underutilized cellular network resources, as well as the reduction of customer acquisition costs will in turn enhance the return of investment in the network.

The Company will also proactively promote the construction of Enterprise Informatization System (UNI-IT). Progress on the implementation of Enterprise Resources Planning System (ERP) will be accelerated. The construction of Management Supporting System (MSS) and Customer Relations Management System (CRM) will be conducted in a more rapid manner.

Whilst acquiring customers, the Company will seek to understand the requirement of its customers through customer segmentation and provide them with more differentiated services. With the competitive edge of the CDMA1X technology and operation becoming more and more apparent, the Company will continue to initiate innovative services and build up a service infrastructure with leading technology and operation within one to two years.

Notwithstanding the challenges lying ahead, we are confident in overcoming these difficulties and in progressing vigorously. I am convinced that the Company's management together with all members of staff will remain keen to advance ourselves and perform with innovativeness. We will continue to create new value for shareholders in 2004 upon the success and hard work laid down in the previous year.

On behalf of the Board of Directors, I would like to take this opportunity to thank Mr. Yang Xian Zu once again sincerely for his outstanding contribution to the Company during his term of office as the Chairman and Chief Executive Officer. I would also like to sincerely thank Mr. Shi Cuiming, our former Executive Director and Executive Vice President, and Mr. Ge Lei, our former Non-Executive Director, both of whom resigned in February 2004, for their contribution to the Company during their respective terms of office.

Lastly, on behalf of the Board of Directors, I would like to express my gratitude to our shareholders and to the community for their interest in and support for the Company. I would also like to thank the management and all members of staff for their hard work.



Wang Jianzhou

Chairman, CEO & President

Hong Kong, 25 March 2004