

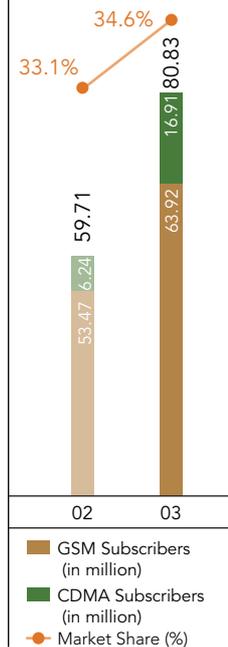
Business Overview



Perform with

Competitiveness

Cellular subscribers and market share



I. Summary

In 2003, the Company achieved rapid development in its core businesses in accordance with the operating principles of “integrated development with our focus on the cellular business; coordinated efforts in developing the different operations of the two networks; priority on efficiency and profitability to increase our scale and strength”.

Our market share continued to expand in terms of cellular subscribers. As of 31 December 2003, the Company had a total of 80.833 million cellular subscribers. The Company’s total market share in its service areas increased to 34.6% at the end of 2003 from 33.1% at the end of 2002, whilst the net addition market share increased to 39.3% at the end of 2003.

CDMA business grew rapidly. As of 31 December 2003, the Company had a total of 16.910 million CDMA subscribers and 1.303 million subscribers for the CDMA1X wireless data service. Total minutes of usage by CDMA subscribers in 2003 reached 43.70 billion minutes. SMS volume reached 6.23 billion messages. We have commenced CDMA international roaming services with 15 operators in 10 countries and regions.

GSM business showed sustained growth. As of 31 December 2003, the Company had a total of 63.923 million GSM subscribers. Total minutes of usage of GSM subscribers in 2003 reached 123.39 billion minutes and SMS volume reached 25.03 billion messages. We have commenced GSM international roaming services with 165 operators in 80 countries and regions.

For the ease of comparison, the information stated in "Business Overview" (except Part III "Cellular businesses in newly acquired 9 provinces and autonomous regions and in 30 provinces, municipalities and autonomous regions on a pro forma basis) as information "on a pro forma basis" refers to the information prepared on the assumption that the acquisition by the Company of cellular businesses in 9 provinces, municipalities and

autonomous regions including Jilin had been undertaken on 1 January 2002 and that the Company had been operating cellular businesses in 21 provinces, municipalities and autonomous regions throughout 2002.

On a pro forma basis, the Company made net addition of 21.123 million new subscribers in 2003, of which net addition of CDMA subscribers accounted for 10.665 million and net addition of GSM subscribers accounted for 10.458 million.

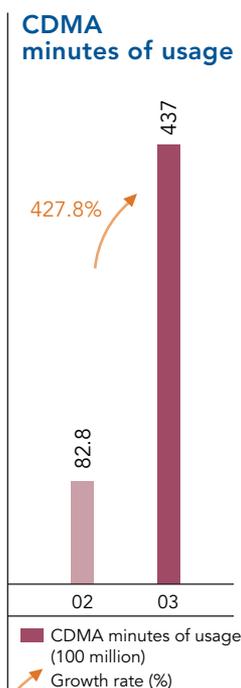
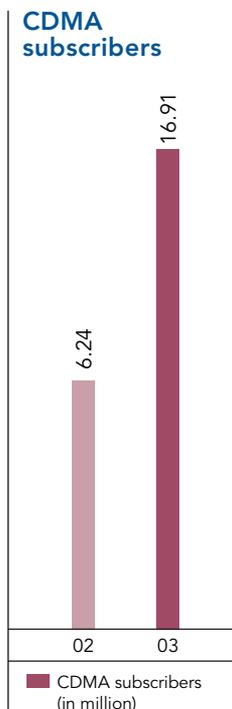
Growth in the Company's international and domestic long distance, data and Internet business remained steady. Total minutes of outgoing international and domestic long distance calls reached 19.83 billion minutes in 2003, representing a market share of 14.0%. Of this total, PSTN outgoing long distance calls reached 8.44 billion minutes and IP outgoing calls reached 11.39 billion minutes. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan amounted to 1.91 billion minutes. The Company's leased line service had a total of 26,000 x 2Mbps bandwidth leased out in 2003. The amount of leased Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") bandwidth totaled 7,194 x 2Mbps. As of 31 December 2003, the Company had 12.432 million Internet subscribers.

The paging business continued to decline. As of 31 December 2003, the Company had 8.560 million paging subscribers.

The Company's optical fiber transmission network continued to expand. As of 31 December 2003, the total length of optical fiber transmission network was 569,000 km, of which optical fiber backbone transmission network accounted for 115,000 km.

The nationwide CDMA network was upgraded to CDMA1X in 2003. Technical trial of testing on the GSM and CDMA (G&C) dual mode technology was completed. The multi-business unified data network platform of international state-of-the-art technology was certified by Ministry of Information Industry. The above mentioned achievements demonstrated the technological advantage of the Company.

CELLULAR SERVICES



II. Business review

Rapid growth in CDMA business

Products and subscribers composition

Since the beginning of 2002, the Company has been the exclusive provider of high-quality CDMA services in China and introduced CDMA prepaid service since August 2003. At present, 17 branches are engaged in the provision of CDMA prepaid service.

Our CDMA1X wireless data service is uniformly branded under the name "U-Max", with individual services being provided under various sub-brands including "Uni-Info", "U-Info", "U-Net", "U-Mail", "U-Magic" and "U-Map".

As of 31 December 2003, the total number of CDMA subscribers was 16.910 million. Of this total, post-paid subscribers reached 16.046 million and pre-paid subscribers reached 0.864 million, representing 5.1% of total CDMA subscribers. Total number of CDMA1X wireless data subscribers reached 1.304 million. In 2003, the churn rate for CDMA services was 11.5%.

On a pro forma basis, the Company made net addition of 10.665 million CDMA cellular subscribers in 2003 compared to the 6.245 million CDMA subscribers in 2002.

Minutes of usage

In 2003, the total minutes of usage for CDMA subscribers amounted to 43.70 billion minutes and SMS volume amounted to 6.23 billion messages.

On a pro forma basis, total minutes of usage for CDMA subscribers in 2003 increased by 427.8% compared with 8.28 billion minutes in 2002. SMS volume of CDMA increased by 11.0 times in 2003 compared with a total of 0.52 billion in the previous year.

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

In 2003, the average MOU per subscriber per month for CDMA services was 337.5 minutes. ARPU was RMB 128.4.

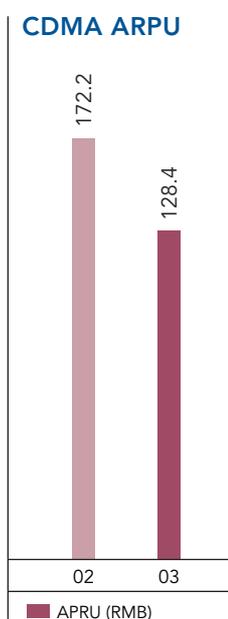
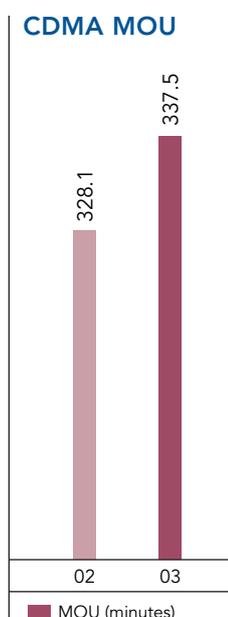
On a pro forma basis, the average MOU per subscriber per month in 2003 increased by 9.4 minutes from 328.1 minutes in 2002. ARPU in 2003 fell by RMB43.8 from RMB172.2 in 2002. The fall in ARPU for CDMA subscribers was attributable to the increase of subscribers from mass market, which changed the subscriber composition and reduced the revenue per minute.

GSM business showed sustained growth

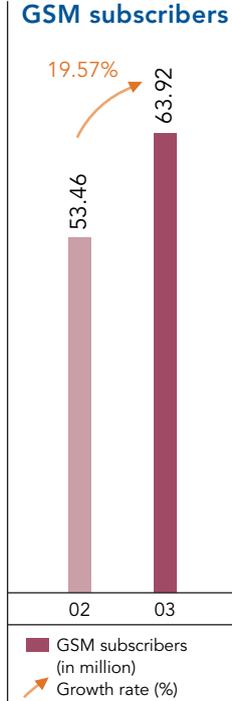
Products and subscribers composition

The Company is engaged in the provision of high quality post-paid and pre-paid GSM cellular service.

As of 31 December 2003, the number of GSM subscribers was 63.923 million. Of this total, post-paid subscribers reached 32.458 million and pre-paid subscribers reached 31.465 million. The proportion of pre-paid subscribers reached 49.2%. The churn rate for GSM services was 29.1%. The increase in the churn rate for GSM services was attributable to the increasingly intense competition in the mass market, which led to more frequent switching of network by the subscribers.



GSM subscribers



On the pro forma basis, the Company made net addition of 10.458 million GSM cellular subscribers in 2003 compared to the 53.465 million subscribers in 2002. Post-paid service had net addition of 2.740 million subscribers in 2003 compared to the 29.718 million subscribers in 2002 and pre-paid service had net addition of 7.718 million subscribers in 2003 compared to the 23.747 million subscribers in 2002.

Minutes of usage

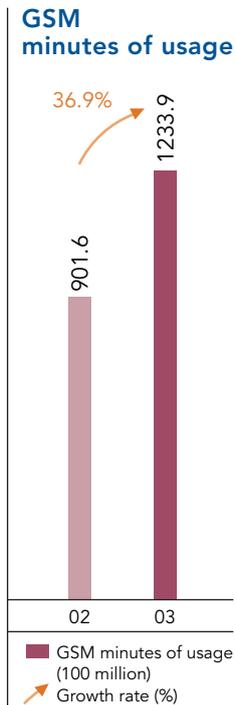
In 2003, total minutes of usage for GSM subscribers reached 123.39 billion minutes and SMS volume reached 25.03 billion messages.

On a pro forma basis, total minutes of usage for GSM subscribers increased 36.9% from 90.16 billion minutes in 2002. SMS volume of GSM increased 1.9 times from 8.50 billion messages in 2002.

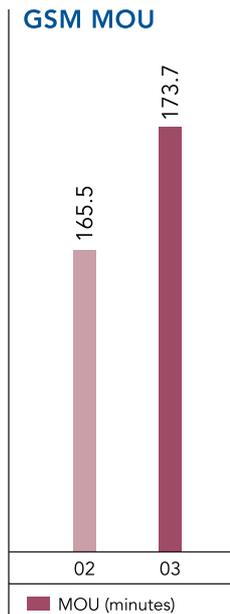
Average minutes of usage ("MOU") and average revenue per subscriber per month ("ARPU")

In 2003, the average MOU per subscriber per month for GSM services was 173.7 minutes. Of this total, post-paid MOU was 231.8 minutes whilst pre-paid MOU was 108.0 minutes. ARPU was RMB 56.7. Of this total, post-paid ARPU was RMB 66.2 and pre-paid ARPU was RMB46.0.

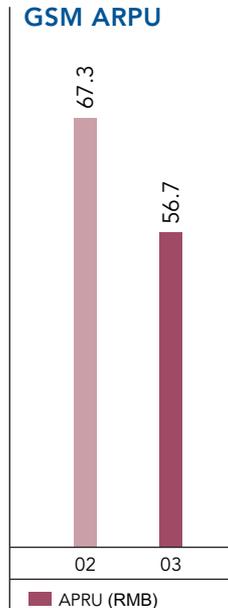
GSM minutes of usage



GSM MOU



GSM ARPU



On a pro forma basis, the average MOU per subscriber per month increased 8.2 minutes from 165.5 minutes in 2002. ARPU in 2003 fell by RMB10.6 from RMB 67.3 in 2002.

LONG DISTANCE SERVICES

Steady growth in the Company's international and domestic long distance, data and Internet businesses

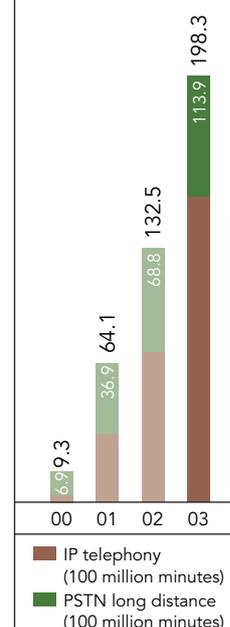
(1) International and domestic long distance business

The total minutes of outgoing international and domestic long distance calls increased to 19.83 billion minutes in 2003 from 13.25 billion minutes in 2002, capturing a market share of 14.0%. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, increased to 1.91 billion minutes in 2003 from 1.47 billion minutes in 2002.

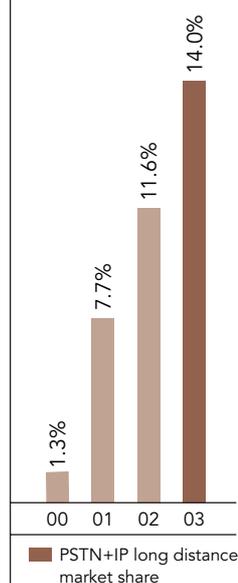
PSTN long distance business

As of 31 December 2003, PSTN long distance business covered 329 cities, representing 97.3% of the 338 cities nationwide. There were a total of 28.212 million registered subscribers. The total minutes of PSTN outgoing long distance calls amounted to 8.44 billion minutes, representing an increase of 32.5% from 6.37 billion minutes in 2002. Of this total, domestic long distance calls accounted for 8.31 billion minutes, whilst long distance calls from international destinations, together with Hong Kong, Macau and Taiwan accounted for 0.13 billion minutes. Total minutes of incoming international calls were 1.78 billion minutes.

International & domestic long distance outgoing calls



PSTN+IP long distance market share



IP long distance business

As of 31 December 2003, the Company's IP telephony business has nationwide coverage and has achieved international roaming with 50 countries and regions. The total minutes of IP outgoing long distance calls reached 11.39 billion minutes, representing an increase of 65.6% from 6.88 billion minutes in 2002. Of this total, domestic long distance calls accounted for 11.25 billion minutes, whilst international long distance calls, together with Hong Kong, Macau and Taiwan long distance calls totaled 0.14 billion minutes. The total minutes of

incoming international calls and calls from Hong Kong, Macau and Taiwan amounted to 0.13 billion minutes.

(2) Leased line business

The Company offers a variety of leased line services based on customers' different bandwidth requirements. As of 31 December 2003, total bandwidth leased was 26,000 x 2Mbps.

DATA AND INTERNET SERVICES



(3) Data business

As of 31 December 2003, total bandwidth leased for Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") carrier operations amounted to 7,194 x 2Mbps. In 2003, the Company successfully launched the broadband video-conferencing and video-telephony service under the brand name of "Uni-Video".

(4) Internet business

The Internet related services that the Company provides include dial-up Internet access, dedicated line

Internet access, "Ruyi mailbox", international IP-VPN, VPN, VPDN, VISP, Uninet international roaming, IDC and corporate e-mail. As of 31 December 2003, the Company provided Internet access services in 325 cities across the country. Internet subscribers increased to 12.432 million from 7.292 million in 2002. Of this total, the number of dedicated line subscribers amounted to 48,000 and the number of dial-up subscribers amounted to 12.384 million. As of 31 December 2003, the number of "Ruyi Mailbox" subscribers reached 7.809 million, representing a net increase of 6.241 million subscribers from 2002.

PAGING SERVICE

Ongoing paging business transformation

Products and services

In 2003, apart from providing traditional paging services and new businesses, including "Paging-Cellular Interlink", "Unicom Assistant" and "Unicom Paging Information Services", the Company also provided "Operator-assisted Short Messages", "Secretarial Services through Operator Assistance" and other value-added services and services tailored to

existing cellular subscribers, in addition to automated voice services.

Subscriber base

As of 31 December 2003, the number of paging subscribers was 8.560 million, representing a decrease of 9.122 million from 17.682 million at the end of 2002. Subscribers for "Unicom Assistant" increased substantially to 22.909 million.

Average revenue per subscriber per month ("ARPU")

In 2003, the average revenue per paging subscriber per month for traditional and new businesses was RMB 4.1.

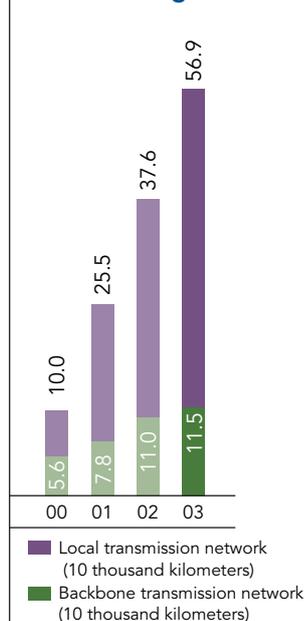
The Company disposed of Guoxin Paging on 31 December 2003 (see section VII headed "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this annual report).

NETWORK INFRASTRUCTURE

Construction of network infrastructure

The Company has a technologically advanced, secure and reliable optical fiber transmission network with nationwide coverage (except for Xizang). As of 31 December 2003, the optical fiber transmission network totaled 569,000 km in length, of which optical fiber backbone transmission network accounted for 115,000 km, and covered 326 cities.

Optical fiber transmission network length



III. Cellular businesses in newly acquired 9 provinces and autonomous regions and in 30 provinces, municipalities and autonomous regions on a pro forma basis

Cellular businesses in newly acquired 9 provinces and autonomous regions

(1) Summary

In December 2003, the Company acquired the cellular communication businesses in 9 provinces and autonomous regions, comprising Shanxi, Inner Mongolia, Hunan, Hainan, Yunnan, Xizang, Gansu, Qinghai and Ningxia. As of 31 December 2003, the total number of cellular subscribers of the Company in the regions mentioned above was 10.683 million, of which the number of GSM subscribers was 8.647 million and the number of CDMA subscribers was 2.036 million. The 9 provinces and autonomous regions mentioned above had a 33.5% total market share and a 33.8% net addition market share. SMS volume totaled 3.58 billion messages in 2003.

(2) CDMA business

As of 31 December 2003, the number of CDMA subscribers in the 9 provinces and autonomous regions mentioned above amounted to 2.036 million, representing a net addition of 1.150 million from 0.886 million at the end of 2002. Of this total, post-paid subscribers accounted for 1.934 million, representing a net addition of 1.048 million from 0.886 million at the end of 2002, whilst pre-paid subscribers reached 0.102 million. The proportion of pre-paid subscribers reached 5.0%. Total minutes of usage for CDMA subscribers amounted to 5.45 billion minutes, representing a 5.6 fold increase from 0.82 billion minutes in 2002. Usage volume of SMS in 2003 totaled 0.62 billion messages. The number of CDMA1X wireless data subscribers reached 0.176 million.

In 2003, the average MOU per CDMA subscriber per month in the 9 provinces and autonomous regions mentioned above was 335.4 minutes, an increase of 16.4 minutes from 319.0 minutes in 2002. ARPU was RMB123.4, representing a decline of RMB 56.3 from RMB179.7 in 2002.

(3) GSM business

As of 31 December 2003, the number of GSM subscribers in the 9 provinces and autonomous regions mentioned above amounted to 8.647 million, representing a net addition of 1.574 million from 7.073 million at the end of 2002. Of this total, post-paid subscribers accounted for 7.105 million, representing a net addition of 1.071 million from 6.034 million at the end of 2002, whilst pre-paid subscribers accounted for 1.542 million, representing a net addition of 0.503 million from 1.039 million at the end of 2002. The proportion of pre-paid subscribers increased from 14.7% at the end of 2002 to 17.8%. Total minutes of usage for GSM subscribers amounted to 19.69 billion minutes, representing a 45.6% increase from 13.52 billion minutes in 2002. Usage volume of SMS in 2003 totaled 2.96 billion messages.

In 2003, the average MOU per GSM subscriber per month in the 9 provinces and autonomous regions mentioned above was 204.6 minutes, an increase of 2.8 minutes from 201.8 minutes in 2002. ARPU was RMB 58.3, representing a decrease of RMB 10.3 from RMB 68.6 in 2002.

Cellular businesses for combined 30 provinces, municipalities and autonomous regions on a pro forma basis

(1) Summary

As of 31 December 2003, the number of cellular subscribers in the combined 30 provinces, municipalities and autonomous regions totaled 91.515 million, of which GSM subscribers accounted for 72.570 million and CDMA subscribers accounted for 18.946 million. The total market share in the combined 30 provinces and municipalities was 34.5%, and the net addition market share was 38.5%. In 2003, the usage volume of SMS totaled 34.84 billion messages. With the cellular subscribers from 30 provinces, municipalities and autonomous regions as calculated on a combined basis, the Company now has the world's third largest cellular subscriber base and the world's second largest CDMA subscriber base.

(2) CDMA business

As of 31 December 2003, the CDMA subscribers in the combined 30 provinces, municipalities and autonomous regions totaled 18.946 million, representing a net addition of 11.815 million from 7.131 million at the end of 2002. Of this total, post-paid subscribers amounted to 17.981 million, representing a net addition of 10.850 million from 7.131 million in 2002, whilst pre-paid

subscribers amounted to 0.965 million, representing 5.1% of total CDMA subscribers. The total minutes of usage for the CDMA subscribers amounted to 49.15 billion minutes, representing a 4.4 times increase from the 9.10 billion minutes in 2002. Usage volume of SMS in 2003 totaled 6.85 billion messages.

In 2003, the average MOU per CDMA subscriber per month in the combined 30 provinces, municipalities and autonomous regions was 337.3 minutes. ARPU was RMB 125.8.

(3) GSM business

As of 31 December 2003, the GSM subscribers in the combined 30 provinces, municipalities and autonomous regions totaled 72.570 million, representing a net addition of 12.032 million from 60.538 million at the end of 2002. Of this total, post-paid subscribers amounted to 39.562 million, representing a net addition of 3.810 million from 35.753 million in 2002, whilst pre-paid subscribers amounted to 33.007 million, representing a net addition of 8.221 million from 24.786 million in 2002. The proportion of pre-paid subscribers increased from 40.9% at the end of 2002 to 45.5%. The total minutes of usage for GSM subscribers amounted to 143.08 billion minutes, representing an increase of 38.0% from 103.69 billion minutes in 2002. Usage volume of SMS in 2003 totaled 27.99 billion messages.

In 2003, the average MOU per GSM subscriber per month in the combined 30 provinces, municipalities and autonomous regions was 177.4 minutes. ARPU was RMB 56.3.

IV. Sales and marketing

Marketing strategies

The sales and marketing model for the Company's CDMA businesses was modified in 2003. After the launch of "Green Tornado" campaign and "U-Max Thunderstorm" nationwide, the number of CDMA subscribers grew rapidly. In the third quarter, the CDMA business recorded profit for the first time. The Company further strengthened its cooperation with content providers and service providers. CDMA1X wireless data business expanded in scale successfully by strengthening its integration with voice business and adhering to the principles of "access and settlement at one stop; all services are available throughout the whole network". Meanwhile, sales and marketing for the GSM business will be focused on voice and SMS so as to further expand its subscriber base.

By fully leveraging the competitive edge of our integrated business, we have formulated special marketing strategies for industry and corporate accounts, which emphasize the advanced development of industry applications. Through the provision of industry solutions, our scope of business extends from basic telecommunication business to informatized services.

We coordinate the development of both the urban and rural markets and pay attention to selected key areas as well as the national market as a whole in order to actively facilitate the continuing development of the Company's business.

Branding strategies

We have placed emphasis on brand management. We have developed a branding system based on our product profile so as to standardize our operation and achieve consistency in our promotion. We have applied various means of communication together in building our brand and in launching our branding and marketing activities. We use brand promotion to develop our business and use our competitive advantage in branding to build a good corporate image, which in turn facilitates the development of all lines of our business.

Customer service

We have made detailed break-down of our subscriber base and target different segments for differentiated services. One-on-one personalized services are provided to industry and corporate accounts. Premium customer services are provided to high-net worth individual customers as well as corporate accounts through "Customer Club". A lot of emphasis is also placed on retaining mass market customers.

We have optimised our service workflow and standards to implement our operation and management professionally. We have established our customer service workflow using a consistent set of standards in order to resolve timely the problems relayed to us by the customers. We have strengthened our analysis and research on customer consumption behaviour, consumption cycle and satisfaction levels to allow ourselves to understand their consumption pattern and influence the consumption trend.

Sales and distribution channel

As of 31 December 2003, the Company had a total of 63,000 sales outlets, of which over 4,000 were self-owned sales outlets. In order to increase the depth of our sales and marketing activities, the Company has launched tele-marketing in

selected areas on a trial basis, and actively searched for new partnership and operation models. Cooperation with different industries has been accelerated through the CDMA industry value chain.

Tariff strategies

The Company takes proactive steps to maintain the order for competition in the telecommunication market. We are careful to avoid price war. Faced with intense competition in the market, the Company has adopted flexible package sales strategies targeting different subscriber base to facilitate the rapid development of its core businesses, whilst complying with the tariff policies set by government regulatory authorities.

V. Business development strategies for 2004

In 2004, we expect the economy of China to sustain its rapid growth. The telecommunication market in China will be presented with appealing development opportunities. However, as competition in the market is still intense, there are both opportunities and challenges for the development of the Company. The Company will use its best endeavours to construct a state-of-the-art network in 2004. We will capitalize on key features of our sales and marketing activities and further

expand our market under the principle of "priority on efficiency and profitability" through innovative service and rapid enhancement of management standard.

In line with our market positioning on the "enterprise", "infotainment", "health-conscious" and "trendy", the Company will strongly promote our CDMA1X wireless data business through a wide variety of contents and applications to enhance our competitiveness in the market and our attractiveness to users.

Our GSM business will focus on the full utilization of network so as to achieve steady development. In accordance with our market positioning of GSM service as "price-sensitive" and "mass market", we aim to increase the revenue and profit for our GSM business amid a trend of stability by targeting the mass market, reducing sales and marketing costs, strengthening client retention and developing new business.

The planned GSM-CDMA dual mode business will be positioned as "one handset roaming around the world; two systems assuring unlimited benefits". This service will allow GSM subscribers to be provided with wireless data services and CDMA subscribers to be provided with international roaming service. We will accelerate the network construction to launch the service in the market as soon as possible.

As an integrated telecommunication operator, we will still emphasize the development of our integrated businesses. Long distance, data and Internet businesses will fully leverage the cellular network and customer resources to establish an integrated communication services system combining mobile and fixed line business. Unique businesses, such as "Uni-Video", broadband video-conferencing and video-telephony, and "Ruyi Mailbox", will be further promoted, which will further enhance operation revenue and efficiency.

Our priority is placed on perfecting the operating and maintenance system. We will enhance our self-repair capabilities for any breakdown of our core operation through the further improvement of operating and maintenance procedures, consistent direction and adjustment system and crisis management system, as well as a network quality appraisal system that will take users' satisfaction level into account. By learning from the experience of our industry counterparts inside and outside China, network maintenance, optimization and innovation will be enhanced and the service quality in international roaming will also be improved.

We will continue to improve our customer service. We will strive to bring superb service experience to our customers by adapting to market demands, strengthening our sense of cooperation and service and enhancing the accuracy, timeliness, stability and flexibility of the processing capabilities of our support system through strategic partnership with main vendors.

In 2004, the Company will strive to capture opportunities arising in the market, speed up the development of all lines of our businesses by focusing on efficiency and profitability, further expand our subscribers base and enhance our operational efficiency and profitability – all in an attempt to take our integrated capabilities to new levels.