

Chairman's Statement

I am pleased to report the operating and financial results of China Unicom Limited (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) for the first six months of 2002.

1. FINANCIAL OVERVIEW

The Group is pleased with its financial performance in the first half of 2002. Total revenue for the period was RMB 17.99 billion, up 32.1% from the same period last year. Total service revenue, excluding sales revenue from telecommunications products, was RMB 16.95 billion, an increase of 31.1% as compared with the same period last year. Revenue from the cellular business reached RMB 13.77 billion, an increase of 45.7% over the same period last year while revenue share in the total revenue increased to 76.5% compared with 69.4% for the same period last year. With regard to the total cellular business revenue generated, revenue from GSM cellular service amounted to RMB 13.32 billion, an increase of 40.9% over the same period last year. Revenue from CDMA cellular service totaled RMB 454 million. Revenue from long distance, data and Internet businesses reached RMB 2.42 billion, up 77.4% compared with the same period last year and its revenue share in the total revenue increased from 10% to 13.5%. Revenue from paging business declined 35.8% to RMB 1.8 billion, while revenue share in the total revenue fell from 20.6% to 10% when viewed against the same period last year.

In the first six months of 2002, the Group's EBITDA reached RMB 8.78 billion, up 35.0% over the same period last year and EBITDA margin rose from 47.8% to 48.8%. Operating profit reached RMB 3.44 billion, up 30.6% over the same period last year. Within this, operating profit from GSM cellular service was RMB 3.42 billion, an increase of 53.9% from the same period last year. Operating profit from the long distance, data and Internet businesses was RMB 937 million, up 162.8% from the same period last year. Paging business recorded an operating loss of RMB 261 million and CDMA cellular service an operating loss of RMB 603 million. Net profit rose to RMB 2.25 billion from RMB 2.19 billion, an increase of 2.7% compared with the same period last year. The growth of net profit lagged behind that of the operating profit was due largely to decline of interest rate on deposit. In addition, part of the money raised from the initial public offering (IPO) has been used as capital expenditure. Earnings per share increased from RMB 0.175 in the same period last year to RMB 0.179.

In the first six months of 2002, the Group's capital expenditure was RMB 8.97 billion, a decrease of 37.1% compared with the same period last year. The Group has continued to maintain a solid and healthy balance sheet. Total assets reached RMB 113.34 billion and debt to capital ratio was 31.5%.



2. BUSINESS DEVELOPMENT

2.1 Rapid cellular business growth maintained as market share continues to rise

During the first six months of 2002, robust growth of the Group’s cellular subscribers continued. As of 30 June 2002, the Group had a total of 34.069 million GSM and CDMA cellular subscribers, adding 7.036 million new cellular subscribers to its total of 27.033 million cellular subscribers at the end of 2001. The Group’s market share in its service areas increased from 28.5% at the end of 2001 to 30.0% and the market share in terms of net subscriber additions increased to 37.6%.

GSM cellular subscribers continued to maintain a high growth trend. In the first six months of 2002, the Group had a net addition of 6.10 million GSM cellular subscribers, of which, post-paid subscribers recorded a net addition of 1.03 million and pre-paid subscribers had a net addition of 5.07 million. As of 30 June 2002, the Group had a total of 33.133 million GSM cellular subscribers, of which, post-paid subscribers reached 17.519 million with share of post-paid subscribers decreased from 61.0% at the end of 2001 to 52.9%, while pre-paid subscribers reached 15.614 million, with the share of pre-paid subscribers rose from 39.0% at the end of 2001 to 47.1%. Total usage volume of GSM cellular business in the first six months of 2002 was 28.33 billion minutes, up 79.0% compared with the same period last year. The usage volume of SMS reached 2.3 billion messages, more than nine times that of the same period last year. The Group has launched international roaming service on GSM business with 100 operators in 62 countries and regions.

In the first six months of 2002, the average minutes of usage per user per month (MOU) for GSM subscribers was 156.7 minutes, a decline of 4.5 minutes from 161.2 minutes in 2001. The MOU of post-paid subscribers reached 212.0 minutes while the MOU of pre-paid subscribers was 85.3 minutes. The average revenue per user per month (ARPU) for GSM subscribers was RMB 71.6, a decline of RMB 14.7 from RMB 86.3 in 2001. ARPU for GSM post-paid subscribers was RMB 83.8 while GSM pre-paid subscribers was RMB 55.8. The average revenue per minute (ARPM) for GSM subscriber was RMB 0.46, a drop of RMB 0.08 from RMB 0.54 in 2001. The ARPM for post-paid subscriber was RMB 0.40 with pre-paid subscriber being RMB 0.65.

As of 30 June 2002, the Group had 936,000 CDMA subscribers. 380,000 of them came from the original Great Wall network while 556,000 were new additions. In the first six months of 2002, the total MOU of CDMA subscribers was 710 million minutes. The Group has launched its CDMA roaming service with Hutchison Telecom of Hong Kong, SK Telecom of South Korea and KDDI of Japan.

In the first six months of 2002, the MOU for CDMA subscribers was 214.0 minutes. Of this, the MOU of subscribers from the original Great Wall network was 205.7 minutes with newly developed subscribers accounting for 227.2 minutes. The ARPU for CDMA subscribers was RMB 106.5. ARPU of the CDMA subscribers from the original Great Wall network was RMB 75.5 with newly developed subscribers being RMB 155.8. The ARPM for CDMA subscribers was RMB 0.50, with the ARPM for CDMA subscribers from the original Great Wall network being RMB 0.37 and newly developed subscriber RMB 0.69.

2.2 Rapid international and domestic long distance business development continues

The international and domestic long distance telephony business continued to grow rapidly. In the first six months of 2002, total minutes of outgoing international and domestic long distance calls reached 5.71 billion minutes, up 142.1% from the same period last year. Market share increased from 7.7% at the end of 2001 to 10.7%. Total minutes of incoming international long distance calls reached 630 million minutes, up 20.6% from the same period last year.

The Group's PSTN long distance telephony business has sustained its robust growth. As of 30 June 2002, PSTN long distance business has a coverage of 321 regions and cities, representing 95% of the regions and cities nationwide. Total number of registered subscribers reached 8.119 million. In the first six months of 2002, total minutes of PSTN outgoing long distance calls totaled 2.91 billion minutes and the total minutes of incoming international calls reached 570 million minutes.

The voice usage of the Group's IP telephony business continued to increase significantly. As of 30 June 2002, IP business covered all of the 337 regions and cities nationwide and enabled international roaming in 50 countries and regions. In the first six months of 2002, total minutes of IP telephony outgoing calls reached 2.8 billion minutes and the total minutes of incoming international calls were 60 million minutes.

2.3 Continued growth in data and Internet business

The Group has made great efforts to develop new businesses on its unified data platform with a view to expand in the area of data business. As at 30 June 2002, the number of SDH circuits leased reached 3,883 x 2Mbps, an increase of 5.3 times over the same period last year. The number of leased asynchronous transfer mode (ATM) and frame relay (FR) circuits reached 1,088 x 2Mbps, an increase of 77.8% over the same period last year. In May 2002, the Group began to provide videoconference service, video telephony service and "Hui Wu Tong" conference call service over IP protocol to its subscribers.



The Group also provides Internet access and other Internet applications services. As of 30 June 2002, the Group has Internet services in 299 regions and cities, incoming international roaming Internet services in 150 countries and regions, and outgoing international roaming Internet services in 103 countries and regions. As of 30 June 2002, the number of Internet subscribers increased from 3.544 million in 2001 to 4.433 million, up 25.1%. The dedicated Internet access business has developed rapidly with subscribers numbering over 10,000. The VPDN business has also seen rapid growth.

2.4 Continued decline in traditional paging business

As of 30 June 2002, the number of paging subscribers for the Group was 23.681 million, decreased by 9.226 million subscribers from 32.907 million at the end of 2001, a drop of 28.0%. The Group has, however, maintained its market leader position. Out of the total subscriber number, 283,000 were information pager users. In the first six months of 2002, the ARPU for paging user was RMB 7.2, a fall of RMB 2.2 compared with RMB 9.4 in 2001.

2.5 Capabilities of network infrastructure strengthened

The Group has constructed a high-speed and reliable long distance backbone transmission network and has formed a nationwide transmission network system with high capacity which has become the base for the Group's various business development. As of 30 June 2002, the optical fibre transmission network reached 319 regions and cities with total length expanding to 410,000 km, of which, our long distance optical fibre backbone transmission network accounted for 96,000 km.

2.6 Increased sales and marketing effort

Guided by the “market-oriented, customer-focused” operation philosophy, the Group has established a highly efficient sales and marketing and customer service system that is adapted to market changes. Through more than 3,000 self-owned service centers and 15,000 retail outlets nationwide, as well as the direct sales team of nearly 100,000 people, we provide the customers of different segmented markets with differentiated telecommunications service. As we continue to strengthen our sales and marketing efforts, we have developed a number of well-known service brands including “Unicom 130”, “Unicom New Horizon”, “Easycom”, “Unicom 193”, “Unicom 165” and others. The Group also highly values customer services and is constantly improving the “1001” service hotline, service centers, corporate clients service team and one-on-one personalized service. Through the launch of a series of events such as “servicing excellence, customer satisfaction” campaign, the establishment of regular client visit mechanism and Unicom Subscribers Club, as well as other activities, we have successfully upgraded customer service standards and established the image of China Unicom as a premier integrated telecommunications operator.

3. BUSINESS OUTLOOK

The rapid growth of the Chinese economy and the increasing of income per capita of Chinese nationals offer huge market potential for the Group's business development. Since our IPO in June 2000, the Group's operation and financial performance has gained substantial growth, whilst its financial foundation and structure has become more solid. For the second half of this year, we foresee the Group's GSM cellular, long distance telephone, data and Internet businesses continuing to enjoy strong growth with earnings rising steadily. As the new additions of CDMA subscribers has seen a strong growth in recent months, it is expected that the number of CDMA subscribers in the second half of the year will grow more rapidly than in the first half of the year with obvious improvement in profitability. The Board of Directors believes that the financial results for this year will be better than last year, thus generating higher return for the investors.

With regard to cellular business, and in order to maintain a balanced development between GSM network and CDMA network, different kinds of market positioning and segmentation in network functionalities have been adopted to provide wider choices for subscribers. GSM service is mainly targeted at the mass market with efforts being made to capture subscribers of high usage and ARPU whereby actively increasing the market share. CDMA service continues to focus on providing differentiated services to corporate users, individual business users and young and fashion users. Efforts will also be made to tap on the mass market.

Being a mature and stable business, GSM service will remain the principal source of the Group's operating revenue and profit. We will enhance the indoor coverage of our GSM network, expand the intelligent network, strengthen network optimization, maintenance and management. Improved billings and the construction of customer service system will also be addressed. This will ensure that the rapid growth of our GSM business can be maintained in the second half of this year, with market share being further expanded to greater generate a steady stream of cash flow and a high profit growth for the Group.



Launching our CDMA business was a strategic decision to establish a leading position in the market. Our CDMA network will be upgraded to CDMA 1X by the end of this year and network capacity will be suitably increased with enhanced coverage. Emphasis will also be placed on the optimization of the network and the enhancement of the network's operating quality. In order to fully leverage on the advantage offered by CDMA 1X technology in providing a variety of mobile data services at medium-to-high speed, the Group will expedite the research and development of new CDMA services, introduce a variety of international collaboration in the form of proven data service applications, strengthen the coordination of every segment of the industry value chain and develop new profit growth drivers for cellular communications. This will lay a solid foundation for the major development of the CDMA business in the year to come. During the second half of the year, the Group intends to further normalize market behavior, increase its efforts in marketing and sales and focus on devising marketing plan to exploit the huge potential groups including the young and fashion segment. In addition to building up a dominant brand name and further enhancing direct sales by way of wholesale contract targeting the public, the Group will continuously improve its network quality, enhance service standard, actively launch value-added services and further control the operating costs effectively. Furthermore, our parent company will further decrease the CDMA network construction cost causing the Group's leasing fee per user to decline further. The Board of Directors believes that the CDMA business will see a rapid and healthy growth trend.

With regard to the long distance telephone business, data business and Internet business, the Group will place emphasis on the return of the capital investment and the complementary strengths of the various businesses. In the midst of the rapid development of the various kinds of businesses, the Group will strive to further improve operating results and increase its return on investment. With long distance telephone and data businesses, we will aim at marketing and sales efforts for target subscribers by means of market segmentation. By providing integrated services and innovative solutions to corporate users, and registration service and telephone card service to mass users, the Group will be able to further enlarge market share. The Internet business, through providing differentiated services, will be able to expand its market share further in the 165 card and dedicated lines subscribers areas, and by expediently launching the IP-VPN, IDC and 165 roaming businesses, the Group will be able to leverage on the strength of integrated corporate resources by aiming at the development of its value-added Internet service.

With regard to our paging business, active measures will be adopted to stabilize and develop traditional pager users, particularly through providing unique personalized service to stabilize and develop corporate users and industry users. We will, at the same time, strengthen our efforts in developing wireless information service, value-added service and call center service to increase the revenue proportion of new businesses. We will have stringent control of capital expenditure on paging business through further adjusting our network system and streamlining the workforce of the paging business to effectively control losses in the second half of the year.

China United Telecommunications Corporation ("Unicom Group"), our parent company, is planning to issue A shares in mainland China to raise funds for part of the CDMA network construction, while further enhancing the image of China Unicom through the A share market. Furthermore, the Company is planning to acquire the quality assets of the cellular business in nine Chinese provinces and municipality, currently under the operation of our parent company, according to its strategy of "overall listing and step-by-step implementation". We believe that A shares issuance in China and the acquisitions by the Company of the above mentioned will be beneficial to the operation of the Company and will be in line with the interest of its shareholders. The Company will endeavor to improve the effectiveness of its investment and the return on equity in order to maximize shareholders' value. The Board of Directors expects that the Company will be in a position to pay final dividends for the year 2002.

Finally, on behalf of the Board of Directors, I would like to express my sincere thanks for the care and support from shareholders and the society at large. I would also like to extend my gratitude to both the management team and all the staff of the Company for their hard work and diligence.

Yang Xian Zu

Chairman and Chief Executive Officer

Hong Kong, 5 September 2002