

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 2003.

I. Financial Overview

The Group is pleased with its financial performance in the first half of 2003. Total operating revenue for the period was RMB 31.97 billion, up 77.7% from the same period last year, of which service revenue was RMB 30.65 billion, an increase of 80.8% as compared with the same period last year. Revenue from the cellular business amounted to RMB 28.36 billion, an increase of 106.0% over the same period last year while its share in the total revenue increased to 88.7% compared with 76.5% for the same period last year. With regard to the revenue derived from the cellular business, revenue from GSM cellular service amounted to RMB 20.52 billion, an increase of 54.1% over the same period last year; revenue from CDMA cellular service totaled RMB 7.84 billion, an increase of 16.3 times over the same period last year. Revenue from long distance, data and Internet businesses reached RMB 2.68 billion, up 10.4% compared with the same period last year and its share in the total revenue decreased from 13.5% for the same period last year to 8.4%. Revenue from wireless paging business declined 48.2% to RMB 0.93 billion, while its share in the total revenue fell from 10.0% for the same period last year to 2.9%.

In the first six months of 2003, the Group's EBITDA reached RMB 12.46 billion, up 41.8% over the same period last year. EBITDA margin dropped from 48.8% for the same period last year to 39.0%, of which EBITDA for GSM cellular service was RMB 11.5 billion, up 55.6% over the same period last year and EBITDA margin rose from 55.5% of the same period last year to 56.0%. Operating profit reached RMB 4.28 billion, up 24.5% over the same period last year. Profit before taxation was RMB 3.35 billion, up 12.4% over the same period last year. Profit before taxation from GSM cellular service was RMB 4.01 billion; profit before taxation from the long distance, data and Internet businesses was RMB 0.84 billion; loss before taxation from wireless paging business was RMB 0.89 billion (which includes RMB 0.56 billion provision for impairment loss and loss on disposal of wireless paging assets); loss before taxation from CDMA cellular service was RMB 0.59 billion. After making provision of RMB 0.56 billion for the impairment loss and loss on disposal of wireless paging business assets, net profit was RMB 2.39 billion, rose 11.6% compared with the same period last year. Earnings per share was RMB 0.190, up 11.6 % compared with the same period last year.

In the first six months of 2003, the Group's capital expenditure was RMB 8.14 billion. The Group has continued to maintain a solid and healthy balance sheet. Total assets reached RMB 141.2 billion and debt to capitalization ratio fell from 44.6% as at the end of the previous year to 41.0%.

On December 31, 2002, the Company completed its acquisition of Unicom New Century (BVI) Limited. On a pro forma combined basis, the Group's total revenue for the first half of 2003 increased 46.2% from the same period last year; EBITDA increased by 14.8% over the same period last year, of which EBITDA for the GSM cellular business increased 18.6% from the same period last year; net profit increased by 5.1% from the same period last year.

II. Business Development

During the first six months of 2003, faced with intensifying market competition and the challenges posed by the SARS outbreak, the Company continued to achieve satisfactory development in its businesses, through the establishment of a high quality networks, and the strengthening of sales and marketing and customer service in accordance with the Company's development strategies.

1. Continuation of the coordinated development of the GSM and CDMA businesses, preliminary success with the transformation of the sales model for the CDMA business and the accelerated introduction of new businesses helped maintain the rapid development of the cellular business.

During the first six months of 2003, subscriber growth for both networks remained steady. The Group recorded a net addition of 9.931 million GSM and CDMA cellular subscribers. As of June 30, 2003, the Group had a total of 69.641 million GSM and CDMA cellular subscribers. The Group's market share in its service areas increased from 33.1% at the end of 2002 to 34.2% and its share of the new subscriber additions market was 41.5%.

As of June 30, 2003, on a pro forma combined basis, the total number of GSM cellular subscribers was 59.663 million, representing an increase of 6.198 million from 53.465 million at the end of 2002, of which post-paid subscribers accounted for 31.654 million; pre-paid subscribers accounted for 28.009 million and the proportion of pre-paid subscribers to the total number of subscribers rose from 44.4% at the end of 2002 to 46.9%. Following the increase in the number of subscribers, total usage volume for GSM cellular subscribers reached 57.45 billion minutes, representing a 40.1% increase from the same period last year. For the first six months of 2003, the average minutes of usage per user per month ("MOU") for GSM services was 168.7 minutes, up 3.2 minutes from 165.5 minutes in 2002, of which, the MOU for post-paid subscribers was 221.6 minutes, whilst the MOU for pre-paid subscribers was 106.1 minutes. Average revenue per user per month ("ARPU") was RMB 58.9, representing a decline of RMB 8.4 from RMB 67.3 in 2002. ARPU for post-paid subscribers was RMB 68.4, whilst ARPU for pre-paid subscribers was RMB 47.6.

As of June 30, 2003, on a pro forma combined basis, the number of CDMA cellular subscribers was 9.978 million, representing an increase of 3.733 million subscribers from 6.245 million subscribers at the end of 2002. Total usage volume for CDMA subscribers reached 16.94 billion minutes, representing an increase of 17 times over the same period last year. For the first six months of 2003, the MOU for CDMA services was 349.5 minutes, up 21.4 minutes from 328.1 minutes in 2002. ARPU was RMB 148.7, representing a decline of RMB 23.5 from RMB 172.2 in 2002.

Uniformly branded as "U-Max", the Company introduced various wireless data services on its CDMA 1X technology, namely "U-Info", "U-Mail", "U-Net", "U-Magic" and "U-Map". The Company also offered SMS service for subscribers under the brand name "UNI-INFO". Short voice message service was also launched. For the first six months of 2003, the usage volume of SMS from GSM and CDMA cellular subscribers reached 11.70 billion messages. Incoming SMS received by GSM and CDMA subscribers from other operators reached 2.68 billion messages. As of June 30, 2003, over 600,000 subscribers were using CDMA 1X data services.

2. International and domestic long distance, data and Internet businesses developed rapidly

In the first six months of 2003, total minutes of outgoing international and domestic long distance calls reached 8.68 billion minutes, up 52.0% from the same period last year. Market share increased from 11.6% at the end of 2002 to 13.2%. The total minutes of PSTN outgoing long distance calls accounted for 3.39 billion minutes, representing an increase of 16.5% from the same period of last year. Market share increased from 11.5% to 12.3%. The total minutes of IP outgoing long distance calls reached 5.28 billion minutes, representing an increase of 88.6% from the same period last year. Market share increased from 11.7% to 13.9%. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan was 860 million minutes, representing an increase of 36.5% from the same period last year.

As of June 30, 2003, the total bandwidth leased for our leased line business was 15,602 x 2Mbps. The total bandwidth leased for asynchronous transfer mode (ATM) and frame relay (FR) data carrier operations amounted to 4,797 x 2Mbps. The Company was the first in the PRC to provide “UNI-VIDEO” video conference service, as well as video phone service by applying IP technology and the subscriber number for these services was 2,227. As of June 30, 2003, Internet subscribers increased from 7.292 million in 2002 to 9.754 million, representing an increase of 33.8%. Of this total, the number of dedicated line subscribers amounted to 37,000, whilst the number of dial-up subscribers was 9.717 million. In addition, Internet data center (IDC), virtual private network (VPN), virtual private dial-up network (VPDN), “Ruyi” mailbox and other e-commerce businesses also developed rapidly.

3. Actively pursued the transformation of the paging business

On the basis of its traditional wireless paging business, the Company introduced the “Unicom Paging Information Service” to offer a variety of information services to its subscribers. With the launch of services such as “Cellular-paging Bundled Service” and “Unicom Assistant”, the Company integrated its wireless paging information and mobile SMS businesses. Apart from voice services, the Company fully utilized its paging resources, and provided value-added services such as “Operator-assisted SMS” and “Secretarial Service through Operator” to our existing cellular subscribers to provide differentiated services. As of June 30, 2003, the number of wireless paging subscribers was 13.025 million, representing a decrease of 4.657 million subscribers or 26.3% from 17.682 million subscribers at the end of 2002. However, the subscribers for “Unicom Assistant” increased significantly to 15.18 million. ARPU for wireless paging subscribers was RMB 7.9.

4. Further strengthened network construction and steadily increasing the quality of communications

The nationwide optical fiber transmission network provided a guarantee in terms of network resources for the rapid development of the Company’s businesses. The Company has placed emphasis on the expansion of its integrated business, and has established a unified network platform for its voice, data, Internet and video broadcasting businesses in the PRC. As of June 30, 2003, the optical fiber transmission network has expanded to 522,000 km in length, of which the total length of the nationwide optical fiber backbone transmission network reached 113,000 km. Following completion of the Phase Two Construction Project for the CDMA business, the network has been upgraded to CDMA 1X, further enhancing communication quality. The Company has devoted significant effort to building a high-quality cellular network and establishing scientific network quality maintenance standards in order to improve the operation and maintenance technologies and quality of its cellular networks.

5. Enhanced sales and marketing activities to facilitate the rapid growth of various businesses

The Company also placed emphasis on the research of customers' needs. Through the creation of renowned brands, such as "Unicom New Horizon", "U-Max", "Ruyi Tong", "Ruyi 133", "UNI-INFO" and "UNI-VIDEO", the Company fully capitalized on the advantages of being an integrated telecommunication services operator. By applying the differentiated advantages on its businesses, technologies and services, we offer bundled services of GSM and CDMA cellular service, international and domestic long distance service, data, Internet and paging services, bundled services of basic and value-added services, as well as bundled services of voice and data services, and offer flexible packages to win customers. The industry value chain, comprising handset manufacturers, distributors and content providers, will be further strengthened. The model for the CDMA business was transformed from handset subsidies to acquisition of handsets at the cost of the subscriber. Sales channels were switched from the proprietary ones to those formed by external parties. A nationwide sales network was established and constituted by the established sales offices of the Company, cooperative joint ventures, and licensed retail outlets. There are now 57,302 sales outlets throughout our network. The Company has further strengthened the establishment of the UNI-CRM customer relationship management system, and improved the service standards of the nationally centralized "1001" customer service hotline. Through the establishment of the "Unicom Subscriber Club", customer satisfaction levels have also been raised.

III. Business Outlook

We believe that the demand in the telecommunications market will remain strong through the second half of the year. This in turn will introduce more opportunities for the continuous growth of the Group's businesses. By leveraging on the Group's high quality cellular network and service standards, we expect the Group's market share in terms of revenue from the PRC telecommunication market to further increase. We will continue to implement business development strategies and objectives of the Company, to further increase the economic efficiency of the Company.

With respect to cellular services, the Group will continue to sustain the coordinated development of both the GSM network and CDMA network. The network resources available for the GSM business will be fully capitalized. Steady growth of the business will be sustained by retaining existing subscribers and acquiring new subscribers through the strengthening of SMS services, development of new initiatives on GSM services and customer care activities. Our parent company is now implementing the phase three construction project for the CDMA network, which aims at expanding the CDMA network coverage as well as indoor coverage, increasing wireless data capacity and optimizing network quality. These measures are expected to significantly enhance the quality of the CDMA network. The Company will capitalize on the advantages of "U-Max", to accelerate the development of mid to high-end customers, and will also actively promote its branding activities and the launch of "Ruyi 133" pre-paid services to expand the market share of CDMA New Horizon.

With respect to long distance, data and Internet businesses, the Group will continue to capitalize on the technological advantages of its unified network platform and introduce new business initiatives to increase business revenue and market share. The data business will be adopted as part of our integrated businesses and marketing and promotion efforts will be devoted to broadband video conference and video phone services. Parallel with the rapid growth of Internet business, emphasis will be placed on the promotion of feature services, such as "Ruyi" mailbox, to actively promote e-commerce applications and develop the "Unicom Internet Plaza" broadband Internet model with other third parties.

With respect to our wireless paging business, the Group will continue to reduce the operating cost through the bundling of wireless paging businesses with other business of the Group, and will seek to transform the wireless paging business to call center business by offering value-added services such as “Unicom Assistant”, “Unicom Paging Information Services”, and telemarketing.

The Company plans to acquire the GSM cellular assets and cellular businesses of the ten unlisted provincial branches from the parent company at the appropriate time, in order to become a national cellular service operator. The Company also plans to sell the wireless paging business to the parent company at the appropriate time, in order to optimize the Company's assets portfolio. When the opportunity arises, the Company intends to utilize lower cost of funding in the international capital market, to minimize finance costs of the Company.

I am confident that through the concerted endeavors of the management and all staff, we will achieve even better results.

The Board of Directors resolved that no interim dividend be declared for 2003, and has the intention to pay annual dividend for the year when 2003 annual results are announced.

Finally, on behalf of the Board of Directors, I would like to express my sincere gratitude for the care and support from shareholders and the public at large, in particular, Mr. Yang Xian Zu, for his outstanding contribution to the Company during his tenure as the Chairman and Chief Executive Officer of the Company. 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.

Wang Jianzhou

Chairman and Chief Executive Officer

Hong Kong, August 28, 2003