

Chairman's Statement

In the first half of 2004, faced with fierce market competition, the Company continued to focus on cellular business and leverage on the advantages of integrated businesses. The Company accelerated the enhancement of network quality, put an energetic effort on the development of mobile value-added services and continued to propel the transformation of CDMA business model. Through the implementation of fine management, the Company has raised its service and operating standards, sustained the steady development of its businesses and elevated the overall competitiveness of the Company.

For the first six months of 2004, the operating revenue of the Company was RMB39.37 billion, representing an increase of 23.2% from the same period last year; of the total operating revenue, the revenue from the GSM cellular business was RMB24.01 billion, up 17.0% from the same period last year; while revenue from CDMA cellular business was RMB12.74 billion, up 62.5% from the same period last year; revenue from the long distance, data and Internet business was RMB2.62 billion, a decrease of 2.1% from the same period last year. In the first half of 2004, operating profit of the Company rose 15.6% from the same period last year to RMB 4.95 billion. Net profit increased 17.8% from the same period last year to RMB2.81 billion. Earnings per share rose 17.7% from the same period last year to RMB 0.224. Free cash flow was further increased to RMB 5.51 billion.

In the first half of 2004, the total number of the Company's cellular subscribers exceeded 100 million. As of 30 June 2004, the Company had a total of 102.513 million cellular subscribers, representing 34.0% of the market share. In the first half of the year, GSM business experienced steady growth, with a net addition of 6.210 million GSM subscribers; CDMA business continued to grow, with a net addition of 4.787 million CDMA subscribers. The number of CDMA 1X wireless data service subscribers has reached 4.5 million since the Company first launched the service in March 2003.

In the first half of this year, following the CDMA network phase III expansion project of the Parent company, the overall coverage and network quality of our CDMA network have been upgraded extensively, symbolizing the initial achievement on constructing a high quality CDMA network. Upon the completion of CDMA network phase III expansion project, large-scale investment of CDMA network will basically come to an end. At the same time, we have further optimized and perfected GSM network, paving the way for a stable growth of our GSM business.

The development of the Company's CDMA 1X mobile value-added services has made great progress and its business superiority is rising to prominence. Through the cooperation with SK Telecom, Microsoft, Qualcomm and other overseas and domestic companies, we accelerated the development of various mobile value-added services. By joining efforts with hundreds of content and service providers, we offered mobile value-added service that has rich content and popular applications. "U-Net" wireless Internet service, together with other services have become users' first choice. In February 2004, five fishermen from Guangxi encountered a disaster at sea. At a critical moment, the extensive coverage of our CDMA network assured the remote communications of the fishermen and the precise location-based technology saved their lives timely. Countless customers were moved by the relevant reports.

The Company always places great emphasis on technology innovation. In the first half of 2004, the Company successfully completed the groundwork for the launch of GSM & CDMA ("G&C") dual-mode system, and launched "Worldwind" dual-mode communication service in the early August. Our various standards including G&C dual-mode system and CDMA handsets with UIM cards are gradually developing to become industry and international standards, which has great impact on the implementation of the Company's international strategies and propelling of the establishment of CDMA's industrial chain.

In the first half of 2004, the Company conducted corporate financing in both international and domestic markets to optimize its debt structure and reduce financial costs. To strengthen internal management, the Company further improved management process and endeavored to push forward the establishment of various management supporting systems such as ERP and MSS. The Company also carried out a campaign named "Satisfied with Unicom" for the service quality year. Through the launch of various activities on service innovation and competition, the overall customer satisfaction was largely elevated.

Over the past few years, the Company has continued to perfect its corporate governance and achieved quite a few honors in this area. A number of measures were put into action to underpin the Company's internal audit and control systems in the first half of this year. The management of the Company placed great emphasis on section 404 of "Sarbanes-Oxley Act" and continued to improve internal control systems through the establishment of the internal control procedures. In order to ensure the corporate transparency, the Company continued to disclose key operation data on a monthly basis and financial figures and operation data on a quarterly basis. Additionally, the independent non-executive directors have been playing a more and more significant role in the Audit Committee and the Board of Directors.

In the second half of 2004, as competition in the market becomes increasingly intense, the Company will grasp the opportunities, increase its marketing strength and leverage on the technological and business superiority of CDMA 1X to gain a competitive edge in the market, as well as strengthen cost management to create better profitability. The Company will focus on the development of CDMA 1X value-added services and endeavor to nurture mobile data services market, so as to drive CDMA business growth. We will fully capitalize on the technological superiority of CDMA 1X and the superiority of our integrated businesses, to provide corporate clients and industrial users with integrated solutions. Through the implementation of differentiated sales and marketing strategies, the Company plans to target at three segments mainly young people, rural users and mass-market users in the city, to actively stimulate the subscriber growth and to ensure the development of GSM business. With respect to long distance communications, data communications and Internet business, the Company will continue to focus on new businesses such as "Uni-Video" broadband video-conferencing and video-telephony service and "Uni-One" integrated service, so as to win more corporate accounts and create new source of revenue growth.

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Along with the accelerating development of CDMA 1X value-added business and stabilization of GSM business, the Company will actively promote "Worldwind" dual-mode phone service in accordance with the market positioning of "elegance, trendiness, high-end" in the second half of this year, to fully capitalize on the advantages of GSM and CDMA dual networks. The Company strives to win mid- to high-end commercial users by providing enriched value-added services and seamless roaming services on a global basis, and consequently establish a high-end brand image for China Unicom's cellular services.

Following the increasing enforcement of market regulation from government regulatory authorities, competition environment is improving gradually. The Company will consciously promote a fair and orderly competition environment for telecommunication market and foster the sustainable development of Chinese telecommunication industry.

In July 2004, like all employees of the Company, I was excited about the commemoration of the 10th anniversary of the parent company. After ten years of innovation and hard work, China Unicom has become the third largest mobile communications operator and the second largest CDMA service operator in the world based on subscribers scale. The Company has been included on the "Forbes Global 500" list for two consecutive years.

Currently, the Company has entered into a new era of its development. Since its listing four years ago, the Company's operating management standard has been improved continuously, network quality and service standard have gained recognition from the users and the superiority of CDMA technology and services has further emerged, laying down a solid foundation for the Company's future development. In the second half of the year, we will double our efforts to speed up the development and create better profitability in accordance with the Company's annual operating strategies.

Lastly, on behalf of the Board of Directors, I would like to thank Mr. Lee Hon Chiu, our former Independent Non-Executive Director for his contribution to the Company during his terms of office. I would also like to express my gratitude to our shareholders and to the community for their support and trust in the Company, as well as all employees for their hard work during the first half of this year.

Wang Jianzhou

Chairman and Chief Executive Officer

Hong Kong, August 26, 2004