

Finance and Business Overview

In the first half of 2004, to meet customers' needs, the Company constantly makes effort in technology innovation and speeds up value-added service development through careful establishment of a high quality network, achieving a stable development in a severe market competition environment.

I. Finance Overview

During the first six months of 2004, in accordance with business development plans, operating revenue increased by 23.2% from the same period last year to RMB39.37 billion, of which GSM Cellular Business accounted for RMB24.01 billion, representing an increase of 17.0% from the same period last year; and CDMA Cellular Business accounted for RMB12.74 billion, representing an increase of 62.5% from the same period last year, with its share of cellular revenue increasing from 27.7% in 2003 to 34.7%. Operating revenue from Long Distance, Data and Internet Business declined by 2.1% from the same period last year to RMB2.62 billion.

In the first half of the year, the Company had a total of RMB4.95 billion operating profit, representing an increase of 15.6% from the same period last year. Operating profit from GSM Cellular Business accounted for RMB4.68 billion, representing a decline of 5.6% from the same period last year. CDMA Cellular Business achieved an operating profit RMB50 million, in contrast to the RMB0.57 billion operating loss in the same period last year. Operating profit from Long Distance, Data and Internet Business totaled RMB0.32 billion, representing a decrease of 64.3% from the same period last year. Profit before taxation grew by 21.4% from the same period last year to RMB4.07 billion. Net profit rose by 17.8% from the same period last year to RMB2.81 billion. Basic earnings per share reached RMB0.224.

In the first half of 2004, EBITDA (Note 1) increased by 13.9% from the same period last year to RMB14.20 billion. EBITDA margin decreased to 36.1% from 39.0% in the same period last year, mainly because CDMA network capacity was leased from our Parent Company. Of which, EBITDA margin of GSM Cellular Business was 52.4%. In the first half of the year, free cash flow (Note 2) further increased to RMB5.51 billion. Capital expenditures totaled RMB7.49 billion, achieved 38.7% of whole year budget. Of which, capital expenditures attributable to the GSM Cellular Business, the Long Distance, Data and Internet Business, the transmission network and other projects were RMB2.60 billion, RMB0.57 billion, RMB1.29 billion and RMB3.03 billion respectively.

As of December 31, 2003, the Company completed the acquisition of Unicom New World (BVI) Ltd and the sale of Guoxin Paging. On a pro forma basis, in the first half of year, total revenue achieved by the Company equaled 54.4% of total revenue in 2003, profit before taxation equaled 49.4% of total profit before taxation in 2003, net profit equaled 48.7% of net profit in 2003 and EBITDA equaled 52.2% of total EBITDA in 2003.

Note 1: EBITDA represents net profit before interest income, finance costs, net other income (expenses), taxation, depreciation and amortisation and minority interests.

Note 2: Free cash flow represents net cash inflow from operating activities minus capital expenditure.

II. Business Overview

1. *Coordinated growth in CDMA & GSM dual networks with superiority of CDMA 1X value-added services gradually emerging*

In the first half of 2004, the number of cellular subscribers exceeded 100 million. As of June 30, 2004, the Company in total had 102.513 million cellular subscribers. Of this total, GSM subscribers accounted for 78.780 million, CDMA subscribers accounted for 23.733 million. The market share in our service area was sustained at 34.0%.

As of June 30, 2004, GSM net addition subscribers were 6.210 million (in 30 provinces, municipalities and autonomous regions, and comparisons below on the same basis), bringing the subscriber base to 78.780 million. Of this total, post-paid subscribers reached 40.660 million, and pre-paid subscribers reached 38.119 million. The proportion of pre-paid subscribers to the total number of subscribers rose to 48.4% from 45.5% at the end of 2003. In the first six months of 2004, total minutes of usage (MOU) for GSM subscribers were 85.99 billion minutes, representing an increase of 29.4% from the same period last year. SMS volume amounted to 15.62 billion messages, representing a growth of 47.2% from the same period last year. The average MOU per subscriber per month for GSM business was 189.4 minutes, representing an increase of 4.0% from the second half of last year. Average revenue per subscribers per month (ARPU) was RMB 51.9, representing a decrease of 4.1% from the second half of last year. In the first half of the year, the churn rate for GSM Cellular Business was 15.5%.

As of June 30, 2004, CDMA net addition subscribers were 4.787 million, enlarging the subscriber base to 23.733 million. Of which, post-paid subscribers reached 22.153 million, and pre-paid subscribers amounted to 1.580 million. The proportion of pre-paid subscribers to the total number of subscribers rose to 6.7% from 5.1% at the end of 2003. In the first six months of 2004, MOU for CDMA subscribers were 38.35 billion minutes, representing an increase of 102.4% from the same period last year. SMS volume amounted to 5.38 billion messages, representing a growth of 147.6% from the same period last year. The average MOU per subscriber per month for CDMA business was 297.2 minutes, representing a decrease of 11.2% from the second half of last year. Average revenue per subscribers per month (ARPU) was RMB 91.3, representing a decline of 20.7% from the second half of last year. In the first half of the year, the churn rate for CDMA Cellular Business was 5.8%.

The wireless data service has achieved rapid growth. In the first half of the year, total revenue of cellular valued-added service amounted to RMB 2.73 billion. The proportion of revenue from GSM valued-added cellular service to total service revenue was 7.7%, and the proportion of revenue from CDMA valued-added cellular service to total service revenue was 7.8%. The number of CDMA 1X wireless data service subscribers has reached 4.5 million since the Company first launched 1X service in March 2003.

2. Steady growth in Long Distance, Data & Internet Business

As of June 30, 2004, the total minutes of outgoing international and domestic long distance calls reached 11.15 billion minutes, representing an increase of 28.5% from the same period last year, attaining a market share of 12.4%. Of which, total minutes of PSTN outgoing long distance calls accounted for 4.83 billion minutes, representing a growth of 42.4% from the same period last year, whilst total minutes of IP outgoing long distance calls increased to 6.32 billion minutes, representing an increase of 19.6% from the same period last year. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, amounted to 1.18 billion minutes, representing an increase of 36.5% from the same period last year.

As of June 30, 2004, the Company's leased line service had a total of 37,000 x 2Mbps bandwidth leased out. Total bandwidth leased for Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") amounted to 7,534 x 2Mbps. The subscribers of "Uni-Video", the bandwidth Video-conferencing and Video-telephony service, reached 25,000.

The growth of bandwidth business such as "Unicom Internet Plaza" was improved rapidly by introducing more Internet games and contents. As of June 30, 2004, Internet subscribers increased to 13.137 million from 12.432 million in 2003, representing a growth of 5.7%. Of this, the number of dedicated line subscribers amounted to 51, 000 and the number of dial-up subscribers amounted to 13.087 million. Outlets of "Unicom Internet Plaza" reached 367.

3. Continued optimization on network infrastructure and initial achievement on building exquisite CDMA network

As of June 30, 2004, the optical fiber transmission network totaled 675,000 km in length, of which optical fiber backbone transmission network accounted for 119,000 km in length. The Company actively engaged with its cooperation, signed an agreement with China Netcom with regard to leveraging infrastructure network resource, further improved the reliability of the Company's transmission network, under the respectation of reducing the cost of network equipment and maintenance.

With the progress of phase III project of CDMA network construction by our Parent Company nationwide, the coverage and quality of CDMA network improved significantly. The CDMA delicate network was established initially, which provided a reliable basis for expanding value-added service and marketing campaigns. After CDMA phase III construction have been completed, significant investment to CDMA network would be completed basically.

In the first half of the year, the Company further optimized and improved its GSM network, further developing the potential of network, increasing network utilization and engaging in network maintenance, to ensure stable development of GSM business.

4. *Constant innovation on technology research and service development, creating new business growth force*

The testing of the Company's patented GSM/CDMA (G&C) dual-mode system, a standard first specified by the Company, has been finished in the first half of the year, and dual-mode service under the brand name "Worldwind" has been launched at the beginning of this August. It represented the milestone technology innovation of the Company, was the main reflection of differentiated competition and an important strategy of realizing coordinated development of two cellular networks. The standards of G&C dual-mode system and CDMA R-UIM card handset are becoming industrial and international standards, and are of significant importance of realizing the Company's international strategy and propelling the CDMA industry chain.

Allied with international and domestic cooperation partners, such as SK Telecom, Microsoft Corporation and Qualcomm Incorporated, the Company is devoted to advancing business innovation, developing plenty of diverse contents of value-added services such as "Color Ring Tone", "Voice SMS" and "U-Web", and establishing the differentiated competitive edge in value-added service area. In the first half of the year, revenue from cellular value-added service increased to RMB 2.73 billion, representing an increase of 77.3% from RMB 1.54 billion in the same period of 2003 on a pro forma basis. The proportion of revenue from cellular value-added service to total cellular revenue rose to 7.7% from 5.0% in the same period of 2003 on a pro forma basis. Value-added services are becoming the new business growth force of the Company.

5. *Marketing strategy and customer service*

In the first half of the year, the Company furthered its segmented marketing activities by analyzing different segment markets and creating marketing plans to meet customer request, avoiding price war by cleaning up diverse kinds of tariff packets, changing the competition focus from cutting price to building strong brand, improving quality and providing better service. The Company further facilitated CDMA marketing transformation through enhancement of management of sale channel and achieved profit growth by strict control of marketing expense. The Company also strengthened customer service by a service quality year campaign named "Satisfied with Unicom", improved service quality comprehensively and established a good brand image.