

Chairman's Statement

Yang Xian Zu

Chairman & CEO



In 2002, the Company placed emphasis on transitioning its growth model from that of scale-oriented development to a model of development based on both scale and profitability.

As a result, the Company reached its CDMA subscriber growth target, achieved the coordinated and rapid development of its GSM cellular business, and the continued rapid growth of international and domestic long distance, data and Internet businesses. The Company further enhanced its competitiveness through the acquisition of GSM cellular assets and businesses and CDMA businesses in nine provinces and municipality and autonomous regions from Unicom Group.

In 2002, the economy of Mainland China continued to experience rapid growth, while competition in the telecommunications industry intensified and market demand further diversified. Faced with intensifying market competition and other challenges, and in accordance with the Company's development strategies, the Company placed emphasis on transitioning its growth model from that of scale-oriented development to a model of development based on both scale and profitability. As a result, the Company reached its CDMA subscriber growth targets, achieved the coordinated and rapid development of its GSM cellular business, and continued the rapid growth of its international and domestic long distance, data and Internet businesses. The Company further enhanced its competitiveness through the acquisition of GSM cellular assets and businesses and CDMA businesses in nine additional provinces, municipality and autonomous regions from Unicom Group. During the past year, the Company took solid strides toward its goal of becoming a world-class telecommunications operator, and became a key competitive entity in China's telecommunications market.

The Company is pleased with its operating results in 2002. Total operating revenue for the year was RMB40.58 billion, representing an increase of 38.0% from 2001, of which service revenue constituted RMB38.33 billion, representing a 36.1% increase from 2001. Of the total operating revenue, revenue from the cellular business reached RMB31.76 billion, up 48.9% from that in 2001, and its share of the total operating revenue increased from 72.5% in 2001 to 78.3% in 2002.

businesses was RMB5.58 billion, an increase of 68.6% from 2001, and their combined share of the total operating revenue increased from 11.3% in 2001 to 13.7% in 2002. Revenue from the paging business was RMB3.24 billion, which fell by 31.9% from 2001, and its share of the total operating revenue decreased from 16.2% in 2001 to 8.0% in 2002.

During 2002, the Company continued to optimise its GSM network in order to enhance the quality of communications on the network. The Company also expanded the leased capacity of the CDMA network, extended its coverage to additional cities, regions and indoor areas, and improved network quality. The Company was able to introduce more value-added and new services based on the GSM and CDMA networks.

Of the total cellular revenue, revenue from the GSM business was RMB28.11 billion (representing 69.3% of total operating revenue), an increase of 31.8% from 2001; and revenue from the CDMA business was RMB3.65 billion (representing 9.0% of total operating revenue). Revenue from the long distance, data and Internet

Operating profit in 2002 was RMB7.32 billion, an increase of 39.1% from 2001, and operating profit margin was 18.0%. Operating profit from the cellular business was RMB6.65 billion, representing an operating profit margin of 20.9%. Operating profit from the long distance, data and Internet businesses was RMB1.40 billion,

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representing an operating profit margin of 20.6%. In 2002, EBITDA rose 37.4% to RMB18.58 billion and the EBITDA margin was 45.8%. EBITDA margin for the GSM business was 56.8%. Net profit rose 2.5% to RMB4.57 billion in 2002. Earnings per share rose 2.5% from RMB0.355 in 2001 to RMB0.364 in 2002.

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significantly improved the quality of its integrated customer service through the integration and expansion of the backup service system and the implementation of its "Customer Satisfaction, Service Excellence" campaign, which strengthened the training and service level among the Company's customer service representatives and improved the customer satisfaction rate. As of 31 December 2002, the Company had a total of 43.114 million cellular subscribers, an increase of 59.5%, or 16.081 million from the end of 2001. Of the total cellular subscribers, GSM cellular subscribers reached 38.623 million, an increase of 42.9%, or 11.590 million from the end of 2001, and CDMA cellular subscribers reached 4.491 million. The Company's share of the cellular subscriber market in its service areas increased from 28.5% in 2001 to 32.6% in 2002, and its share of the new subscriber additions market reached 43.6% in 2002. Total usage volume in the GSM cellular business reached 61.85 billion minutes in 2002, representing a year-on-year growth rate of 61.4%. Total usage volume in the CDMA cellular business reached 5.90 billion minutes. The Company has achieved preliminary success from coordinating the development strategies of the CDMA network ("focus on mid-to-high-end customers, while also serving the mass market") and the GSM network ("focus on the mass market, while actively targeting the mid-to high-end customers").

The Company's long distance, data and Internet networks have generally reached nationwide coverage within Mainland China, and their transmission capabilities were further enhanced during 2002. Outgoing PSTN and IP long-distance telephony calls reached 13.25 billion minutes in 2002, up 106.7% from 2001, representing an increase in market share from 7.7% in 2001 to 11.6% in 2002. Incoming international long distance calls reached 1.47 billion minutes, up 19.5% from 2001.

The Company took various measures to transform its paging business, including through the development of new businesses such as the "Cellular-paging bundled service", which integrates paging and cellular services, and the "Unicom Assistant" service, which attracted 7.94 million customers. However, the accelerating pace of cellular substitution resulted in a decrease in the paging subscriber base of the Company, from 32.907 million subscribers at the end of 2001 to 17.682 million as of 31 December 2002. Nevertheless, the Company maintained its dominant position in the paging market.

The Company's fiber optic transmission network further expanded in scale and coverage, reaching 330 cities and regions in Mainland China. As of 31 December 2002, the Company's network had reached a total length of 486,000 km, representing an increase of 45.9% from 2001. Of the entire network, the fiber optic backbone transmission network reached a total length of 110,000 km, up 41.0% from 2001. Apart from ensuring network capacity for its various growing businesses, the Company has also begun to lease its nationwide fiber optic transmission network to other operators and sectors of the community.

With the aim of becoming a world-class telecommunications operator, the Company has continued to improve its corporate governance system and strengthen its management. The independent non-executive directors and the two special committees under the Board of Directors have functioned effectively. The Company has further enhanced its various internal controls

and has put in place relevant procedures and standards. The internal audit system, previously operated through various internal audit departments in the Company's branches, came under centralised supervision by the Company at its headquarters in order to further accommodate the needs of the internal controls system. The Company also enhanced its operating results appraisal system and the incentive and control mechanisms for its senior management, placing more emphasis on performance evaluation. Increased recruitment efforts in the PRC and overseas, aimed at senior executives and technical personnel, resulted in increases in the Company's talents and enhanced competitiveness of its work force. The Company also improved the exchange and rotation of mid-to senior-level managers and increased

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During 2003, the Company will seek to create a favorable external environment and will adhere to its existing strategies – “Establishing New Mechanisms, Constructing Advanced Networks, Adopting Advanced Technologies, Striving for High Growth, and Developing Integrated Businesses” – in an effort to accelerate the coordinated development of the Company’s various businesses.

overseas training opportunities for senior managers and specialists/ technical personnel. One hundred and forty senior executives, with the rank of deputy general manager or above, from the Company’s provincial branches, received training in Hong Kong, while 240 mid- to senior-level sales and marketing executives were sent to the U.S. to receive training from U.S. telecommunications operators. These training activities further expanded the executives’ vision and expertise.

In 2002, the Company actively pursued various forms of international cooperation. The Company successfully hosted the “Summit of International CDMA Operators,” which increased China Unicom’s influence in the global CDMA cellular communications industry. The Company also conducted exchanges and cooperated with various international telecommunications operators, including exchanges and staff training with Sprint in the U.S. Unicom Group, the Company’s controlling Shareholder, has also established joint ventures with Qualcomm of the U.S. and SK Telecom of South Korea, and has entered into cooperative arrangements with Microsoft and other companies. These efforts help enhance the development of new businesses and value-added services, and raise the technical and managerial expertise of the Company. Through international cooperation, the Company also increased its competitiveness.

The cellular businesses of the additional nine provinces, municipality and autonomous regions acquired by the Company performed well in 2002. As of 31 December 2002, annual operating revenue from these businesses totaled RMB11.70 billion, representing an increase of 69.3% from the previous year. Net profit rose 92.7% to RMB620 million in 2002. Cellular subscribers in these additional provinces, municipality and autonomous regions totaled 16.596 million, 14.843 million of whom were GSM subscribers (up by 55.2% or 5.280 million in 2002 from 9.563 million at the end of 2001) and 1.753 million of whom were CDMA subscribers. The market share in terms of cellular subscribers in these additional provinces, municipality and autonomous regions increased from 29.7% in 2001 to 34.4% in 2002, and the market share in terms of newly added subscribers reached 44.0% in 2002.

As of 31 December 2002, on a combined basis, the Company's GSM subscribers in 21 provinces, municipalities and autonomous regions totaled 53.465 million, an increase of 16.869 million, or 46.1%, from the pro forma combined 36.596 million at the end of 2001, and its CDMA subscribers totaled 6.245 million. The Company's share of the cellular subscriber market in these areas was 33.1% in 2002, and its share of newly added subscribers was 43.7%. The pro forma combined net profit was RMB4.99 billion.

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Since the incorporation of the Company three years ago, the various major businesses of the Company have achieved high growth and generated sound operating results. The Board of Directors hereby recommends a final dividend in the amount of RMB0.10 per share for 2002.

In 2003, although global economic recovery is uncertain, it is expected that the Chinese economy will continue to maintain its strong growth and the demand in the Chinese telecommunications market will continue to grow, thus providing greater opportunities for the Company. However, as the Chinese telecommunications market opens further, competition will become more intense, which will bring additional challenges to the development of the Company's businesses. During 2003, the Company will seek to create a favorable external environment and will adhere to its existing strategies – "Establishing New Mechanisms, Constructing Advanced Networks, Adopting Advanced Technologies,

Striving for High Growth, and Developing Integrated Businesses" – in an effort to accelerate the coordinated development of the Company's various businesses. The Company aims to achieve breakthroughs in the eastern provinces of the PRC by nurturing certain provincial, city and regional branches to achieve high revenue growth and high profitability. The Company will also seek to increase its market share of total operating revenue and profit of the industry, and maintain growth in revenue and profit.

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The Company will maintain its strategy of coordinated development of the GSM and CDMA cellular businesses in 2003 so that the two businesses will supplement and complement each other in the areas of market position, resource allocation and marketing, and will jointly grow in terms of subscriber base, revenue and profit. The Company will aim to generate a profit from the CDMA business by: upgrading to CDMA 1X technology, optimising network quality, improving network coverage, promoting various services along the product value chain, broadening the scope of cooperation with service and content providers, focusing on the introduction of value-added services based on the CDMA 1X platform under the “U-Max” brand, capturing market share through

the advantages of CDMA services in technology, products and value-added services, and turning value-added services into new sources of revenue growth for the Company.

The Company will also aim to maintain steady growth in revenue and profit from the GSM business by: adhering to the principle of “seeking enhancement, optimisation, further potential and efficiency,” making appropriate investments to improve the network, optimising the network, fully developing the potential of the network, increasing network quality and accelerating the development of new businesses.

The Company will seek to fully leverage the advantage of having a uniform network platform to develop integrated services. Through the integration of PSTN long distance telephony, IP telephony, video telephony, CDMA 1X and the Internet, the Company will seek to increase revenue and market share for the long distance, data, Internet and e-commerce businesses. By accelerating the development of the long distance and data businesses and by making further innovations for the Internet business, the Company will aim to establish an e-commerce platform based on advanced technologies and comprehensive service capabilities. These measures will allow the Company to increase investment returns from the fixed-line business.

The Company will actively pursue different measures, including through the further development of integrated services such as the “Cellular-paging bundled service”, which integrates the paging and cellular services of the Company, and the “Unicom Assistant” service, to provide value-added services other than voice-based services to its existing cellular subscribers. At the same time, the Company will develop new businesses such as the outsourcing of paging centers in an effort to transition the paging business. The Company will also tighten its control of capital expenditure in the paging business and endeavor to stabilise paging revenues in order to reduce the loss from the paging business.

The Company will continue to bolster its marketing efforts and customer service. New marketing models will be created to adapt to the requirements of the ever-changing marketplace. The Company will also comply with the tariff policies promulgated by the PRC government and avoid price wars by competing on the basis of network quality and services and the advantages of its integrated businesses.

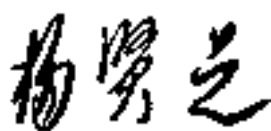
The Company will further enhance its corporate governance. Pursuant to new requirements of the relevant regulatory authorities, the responsibilities of special board committees mostly comprised of independent non-executive directors will be expanded, the internal controls and risk management systems of the Company will be enhanced, and the information disclosure controls and procedures, code of ethics for senior management and other guidelines and rules will be finalised and implemented. The Company will also further improve communications with its investors. In addition, the Company will strengthen its management system, strengthen the audit and supervision of its operations and strictly control operating expenses. The Company will also further enhance business practices and management structure and expedite the establishment of a corporate information system, in an effort to continually improve operational efficiency and management.

The Company will fully explore opportunities in the international and domestic markets to broaden financing channels, improve its access to the capital market and reduce financing costs. The Company will place more focus on international cooperation.

When appropriate, the Company will acquire the GSM cellular assets and cellular businesses of the ten unlisted provincial branches from Unicom Group, in order to establish a nationwide cellular network and further enhance its competitiveness.

I have full confidence in the future prospects of the Company. The management and all employees of the Company will embrace the challenges facing the Company and strive to achieve better operational results and greater value for shareholders.

On behalf of the Board of Directors, I would like to express my gratitude to our shareholders and to the community for their interest and support in the Company. I would also like to thank the management and all employees of the Company for their dedication and hard work.



Yang Xian Zu
Chairman & Chief Executive Officer

Hong Kong, 1 April 2003