



中国联通
CHINA UNICOM



Chang Xiaobing
Chairman and CEO

Chairman's Statement

Subject to possible far-reaching scientific developments, 2005 will see China Unicom strive to adopt development strategies that are consistently reasonable, practical and proactive. Such strategies will be market oriented and aimed at accelerating growth effectively. Investment and operating costs will both be subject to greater control in order to further enhance efficiency. At the same time, the Company plans to improve its executorial capabilities by consolidating its management of core functions. China Unicom is aiming to create a business model focused on efficiency rather than scale.

2004 was a year full of challenge and yet extraordinary in the continued development of China Unicom. It was also a period of increasingly fierce competition across the telecoms market in the PRC. I am delighted to report that our team responded to these challenges with their customary "can-do" dedication. The many noteworthy changes that occurred as a result of our team's positive attitude included significantly enhanced management standards and network efficiency levels. The year just ended also saw the Company's aggressive expansion plans result in stable and sustainable development across various key business segments.

For the year of 2004, operating revenue of the Company reached RMB79.33 billion, an increase of 17.3% from 2003. Revenue from GSM cellular business was RMB47.47 billion, an increase of 15.3% from 2003. Revenue from the CDMA business was RMB26.34 billion, an increase of 41.8% from 2003. Revenue from the long distance communications, data communications and Internet business was RMB5.53 billion. In 2004, EBITDA of the Company was RMB27.02 billion, an increase of 8.5% from 2003. Net profit increased 4.0% to RMB4.39 billion. Earnings per share was RMB0.349. In 2004, our free cash flow was RMB5.43 billion, up RMB2.62 billion from last year.

The Board of Directors is pleased to announce that it has recommended the payment of final dividend of RMB0.10 per share for 2004. If the proposed dividend is approved by the Company's Annual General Meeting, the Company will pay the dividend on or before 7 June 2005.

Review of 2004

In accordance with the operating policy of "integrated development with our focus on the cellular business; coordinated efforts in developing the different operations of our two networks; priority on efficiency and profitability to increase our scale and strength," the Company has realized new growth for CDMA and GSM cellular businesses. Landmark achievements in 2004 included the completion of a high quality CDMA network that has enabled significant improvement of both network coverage and quality. By leveraging its technological and network superiority, China Unicom's CDMA operations continued to achieve encouraging increases in both turnover and revenue. 2004 also saw the further optimizing and perfecting of the Company's GSM network. This has resulted in a steady growth in terms of both subscriber numbers and operations. The total number of cellular subscribers for the Company's GSM and CDMA networks was well in excess 100 million in the mid-2004. The Company is building on this solid bedrock by continuing to develop and promote value-added cellular services for its subscribers. The successful launch and rapid growth of the "Worldwind" branded GSM-CDMA cellular service is another example of the success of the Company's integrated approach.

The significant improvement in China Unicom's free cash flow figure for 2004 was the result of tighter control of capital expenditure and flexible financial management. The year just ended also saw an improvement in the Company's liabilities-to-assets structure, with the liabilities-to-assets ratio decreasing from 53.5% in 2003 to 50.0% in 2004.

Steady and sustainable development in key business segments

As at 31 December 2004, the Company had a total of 112.081 million cellular subscribers, an increase of 22.5% from the end of 2003, representing 35.6% of the market share. Of which, it had a total of 84.267 million GSM subscribers and a total of 27.814 million CDMA subscribers, an increase of 16.1% and 46.8% respectively from 2003. In August 2004, the Company successfully launched its pioneering "Worldwind" dual mode cellular service. This development not only sharpened China Unicom's competitive edge as an integrated business, but also helped build up a "prestigious", "stylish" and "corporate" image for the Company as a whole.

In 2004, the Company's SMS volume reached 44.22 billion messages, an increase of 26.9% for the year. The Company also expended great efforts in the development and promotion of its mobile data services based on CDMA 1X network. Successful launches in this area during the year included ground-breaking applications such as "Unicom Horizon Police Applications", "Unicom Horizon Maritime Applications" and "Stock-in-Palm". Effective co-operation between the Company and its industry specific partners in these ventures offered useful benefits to both parties. The Company has further enhanced the differentiated element of its competitive edge by continuing to leverage its "uni" umbrella-branded wireless data service. At the end of 2004, the subscriber base for the Company's CDMA 1X wireless data service stood at 8.711 million subscribers. The

proportion of revenue from value-added cellular business to the total revenue from cellular business increased from 5.0% in 2003 to 10.2% in 2004.

Growth of the Company's international and domestic long-distance telephone traffic volume remained steady throughout 2004. Total minutes of outgoing calls for international and domestic long distance telephone business reached 24.05 billion minutes in 2004, an increase of 21.3% from that in 2003. Internet and "Ruyi Mailbox" subscriptions rose to 13.625 million and 14.690 million respectively. The year under review also saw some 337,000 subscribers sign up for the Company's pioneering "UNI-VIDEO" broadband service.

Substantial enhancements of network communication capabilities

After completing three phases of construction by our parent company, a high quality CDMA network was basically achieved. Network coverage and quality were improved substantially. The new network has subsequently gone on to achieve leading ranking positions for most regions in the PRC. As part of its ongoing commitment to continuously explore its existing network potential, the Company further expanded its GSM network in line with growing market requirements. At present, GSM subscribers can access roaming services in 101 countries and regions whereas CDMA subscribers can access roaming services in 12 countries and regions. The Company has continued to place great emphasis on standardizing its network management and maintenance capabilities. To this end, 2004 saw the Company successfully implement and improve network administration systems for both its CDMA and GSM networks. The further strengthening of interconnection and intra-network communication quality processes resulted in an additional enhancing of China Unicom's excellent reputation for providing high network maintenance and operation standards.

Further improvements of the Company's management standards

2004 saw the Company strive to build its business by embarking upon fine-tuning of its sales and marketing strategies. Specific activities undertaken in these areas included the refining of brand management and the stabilization of tariffs. The raising of two syndicated loans also enabled the Company to effectively reduce its finance costs and expand its available financial channels. Other steps that played a key role in the strengthening of the Company's control on its investments and capital expenditure included the increased centralization of finance and budgetary management.

To increase corporate governance standards, the year under review saw the Company implement several initiatives aimed at enhancing its internal control. The resultant strengthening of internal control over business processes has greatly improved the Company's ability to identify and deal with risk management issues that has assured the accomplishment of the Company's business strategies and the enhancement of efficiency. The Company has continued to make full disclosure of all relevant operation data and financial figures on a quarterly basis, while main operating data has been announced on a monthly basis. This high level of transparency is designed to ensure that all existing and potential investors will have a much fuller understanding on the Company's operations.

New progresses obtained for overseas development

In September 2004, China Unicom officially completed the acquisition of China Unicom International Limited, a wholly-owned subsidiary of its parent company, which is engaged in telecommunications in Hong Kong and USA. The acquisition of Unicom Int'l has enabled the Company to significantly expand its telecommunications network and services both here in Hong Kong and overseas. In 2004, the Company also submitted its tender for the CDMA licence of Macau to the Government of Macau Special Administrative Region, and was awarded the licence in March 2005 to operate CDMA business in Macau Special Administrative Region. This is a landmark accomplishment for the Company in the areas of business expansion outside the Mainland China, which will enable the Company to accumulate valuable overseas operation experience, as well as enhance its profitability.

Prospects

In accordance with the terms of China's admission to the WTO, 2005 will see the telecommunications market in the PRC become more open for foreign companies than ever before. Recent years have seen China's GDP experience a period of phenomenal expansion. This rapid growth has been accompanied by a substantial nationwide increase in the demand for information technology, network and services. In addition, prospects for the continued development of the industry in the PRC look very promising. This is especially true of the cellular communications segment, which is continuing to record very high year-on-year growth. Regulatory environment is expected to improve further. Ultimately, the Company remains confident that these changes will result in market conditions, which are favorable for its sustainable future growth.

Subject to possible far-reaching scientific developments, 2005 will see China Unicom strive to adopt development strategies that are consistently reasonable, practical and proactive. Such strategies will be market oriented and aimed at accelerating growth effectively. Investment and operating costs will both be subject to greater control in order to further enhance efficiency. At the same time, the Company plans to improve its executional capabilities by consolidating its management of core functions. China Unicom is aiming to create a business model focused on efficiency rather than scale. Such swift improvement of the Company's core capabilities is sure to play a key role in the Company's continued long-term success.

China Unicom is doing everything possible to accelerate the establishment of a market-oriented operation and services mechanism, to better anticipate and respond to changing consumer needs and market trends. Such a mechanism will provide a firm foundation for the effective implementation of the Company's sales and marketing strategies. Tariff management will also be strictly enforced and numerous packages will be removed in order to stabilize rates. The Company also intends to capitalize on its integrated competitive edge by introducing cross selling strategies, which will create synergies across its different business segments. China Unicom is devoting increasing amounts of time and effort to the building of sales and marketing channels that will result in the harmonious development of both its proprietary business and society as a whole. Plans are already underway to establish customer liaison and retention activities that will further enhance subscriber loyalty and reduce churn rates. The Company will also focus on consolidating the proven value of its "Worldwind", "Unicom Horizon", "U-Power" and "Ruyitong" cellular brandings and developing "uni" as its value-added cellular business. The introduction of new products and customer service innovations and flows that are totally in tune with subscribers' experiences and needs is yet another way the Company will build its business during the coming year.

The Company intends to accelerate the development of its CDMA business and optimize network utilization rates by capitalizing on the business and technological superiority of CDMA 1X. Greater efforts will be made to expand market share among industry-specific customers and the youth market. Greater emphasis will be placed on reducing CDMA handset prices and marketing expenses as well as strengthening the control and management of the purchasing and distributions processes of CDMA handsets. The coming year will also see China Unicom redouble its efforts to develop CDMA industry chain and overcome bottlenecks that have thus far held back the development of its CDMA business.

To ensure the continued stable development of its GSM business, the Company will continue its attempts to optimize the efficiency and usage of its GSM network. This will involve an increased focus on strategies aimed at stabilizing existing customer loyalty levels by minimizing churn rates. The timely exploration and efficient utilization of GSM network will also help to sustain growth in this sector.

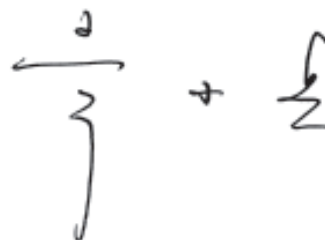
The coming year will see China Unicom continue to place great emphasis on the development of its value-added cellular business and focus on the development of SMS and "uni" to encourage growth in subscribers and revenue.

In 2005, the Company's long-distance, data and Internet businesses will continue to capitalize on its integrated nature by starting cross selling with cellular services. Such activities will be targeted at the very lucrative corporate and commercial client sectors and also include public subscribers and all mobile customer groups. The development of the Company's voice and leased-line, dedicated internet and "UNI-VIDEO" services will be supplemented by the addition of new value-added broadband-based businesses. The ultimate aim is to increase subscribers' value by encouraging them to migrate from single to multiple service usage.

The Company will continue to promote profitability by propelling management innovation and efficiency. Comprehensive budgetary management and the establishment of an internal control system will also be enforced. The establishment of a centralized financial management structure supported by an IT-oriented operating platform will enable better budgetary management of all core functions. China Unicom is committed to further enhancing its investment management efficiency by ensuring tighter control of capital expenditure. The Company is also devoted to improving its free cash flow and debt structure by increasing the rate at which its network resources are utilized. Cost control activities aimed at bringing sales and marketing administration expenses in line with anticipated growth in subscriber numbers and revenue will help the Company to consolidate the steady gains it has made over the years. Additional efficiency measures will be introduced in the areas of network operation and maintenance. With the construction of network operation and maintenance systems moving rapidly ahead, it is vital that China Unicom continues to enhance its timely network response rates and fault prevention capabilities. Consequently, the Company's IT-oriented operating platform will also be evolved at a faster rate. This optimization of management processes and consolidation of management fundamentals will ensure state-of-the-art support for and protection of the Company's development.

In 2005, the Company will adhere to the policies of "insisting on expansion and innovation", "insisting on a market-oriented approach", "strengthening management and execution" and "expediting effective development". In the coming year, the Company will once again honor the spirit of fair and orderly competition that exists in the telecommunications market while striving to create added value for its shareholders.

I was duly appointed as the Chairman and Chief Executive Officer of China Unicom on 21 December 2004. I am very honored to have had the full support of the Company's Board of directors, management team and staff in settling in to this vitally important role. On behalf of my fellow Board members, I would like to salute my predecessor, Mr. Wang Jianzhou, for the steady progress the Company made under his proactive stewardship as Chairman, Chief Executive Officer and President. In closing, I would also like to express my sincere gratitude to China Unicom's shareholders and to the community as a whole for their support of the Company. I would also like to take this opportunity to thank our management and staff team for their hard work and dedication during 2004.



Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 24 March 2005