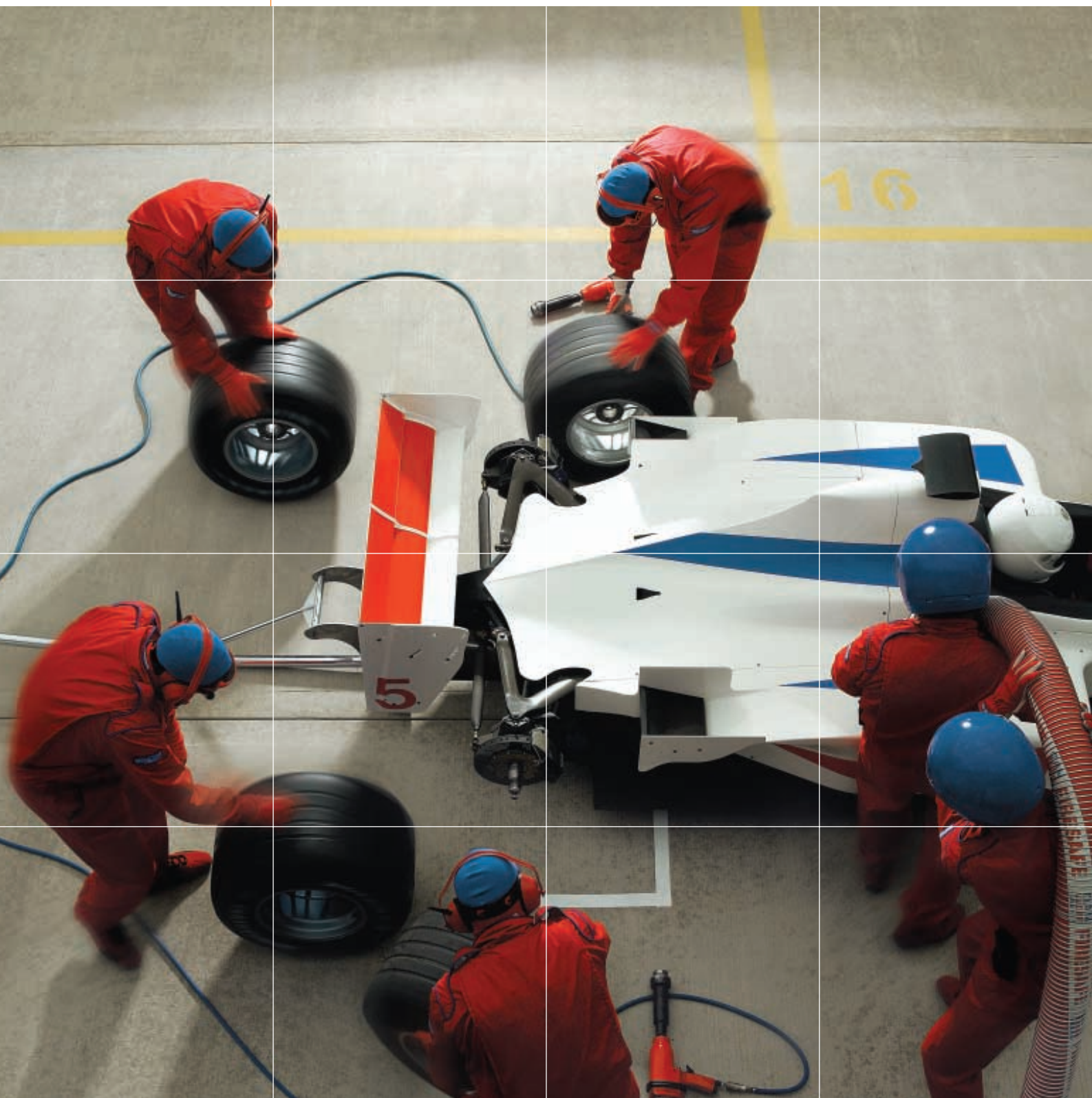


# Customer Focus



## Business Overview

The Company continued the strategy of focusing on cellular business while leveraging the edge of integrated services. Together with the effort of building high quality network, the Company managed to maintain steady growth in an intensive competitive environment by refining marketing practices, enhancing brand establishment, developing and promoting value-added services, improving service quality and achieving operation efficiency.

### I. Summary

In 2004, the Company continued the strategy of focusing on cellular business while leveraging the edge of integrated services. Together with the effort of building high quality network, the Company managed to maintain steady growth in an intensive competitive environment by refining marketing practices, enhancing brand establishment, developing and promoting value-added services, improving service quality and achieving operation efficiency.

(Note: As of 31 December 2003, after the Company completed its acquisition of entire equity interests in Unicom New World (BVI) Ltd and the sale of Guoxin Paging, the service area of the Company expanded to 30 provinces, cities and autonomous regions from 21 provinces, cities and autonomous regions in 2002. For the ease of comparison, on the pro forma basis, it's assumed the Company's operation of cellular business in the 30 provinces, cities and autonomous regions started on 1 January 2003, except for specifically explanation.)

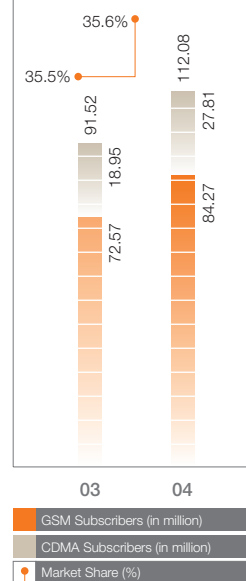
Coordinating the operation of CDMA and GSM business. As of 31 December 2004, the Company had a total of 112.081 million cellular subscribers, representing an increase of 22.5% year-on-year. The Company's total market share

in its service areas steadied at 35.6% at the end of 2004. Of this total, GSM subscribers accounted for 84.267 million, representing an increase of 16.1% year-on-year; CDMA subscriber accounted for 27.814 million, representing a growth of 46.8% year-on-year.

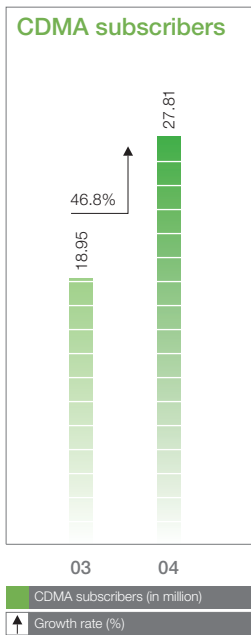
Cellular value-added services ("VAS") continued to grow rapidly. In 2004, SMS volume reached 44.22 billion messages, representing a growth rate of 26.9%. The users of CDMA 1X wireless data service reached 8.711 million, increased by 4.9 times year-on-year. Revenue of mobile VAS reached RMB7.24 billion, increased by 1.2 times year-on-year, and the share of VAS revenue to total mobile service revenue increased to 10.2% from 5.0% in 2003.

Long distance, data and Internet volumes grew steadily. In 2004, the total minutes of outgoing international and domestic long distance calls totaled 24.05 billion minutes, representing an increase of 21.3% year-on-year. The Internet subscribers increased to 13.625 million from 12.432 million in 2003. The subscribers of "Uni-Video" broadband video-telephony service and "Ruyi Mailbox" service reached 337 thousand and 14.69 million respectively.

Cellular subscribers and market share



## Cellular Services



The scale of telecommunication network expanded and the quality of network improved further. As of 31 December 2004, the total length of optical fiber transmission network reached 712 thousand km, of which optical fiber backbone transmission network accounted for 120 thousand km. Operation supporting system of transmission network stretched 30 provinces and cities nationwide. GSM network expanded to Tibet and started to operate in trial.

In 2004, since the quality and coverage of CDMA network improved comprehensively, wireless data service and industry applications based on CDMA 1X network were realized and used by even more customers. The “Worldwind” dual-mode handset and service

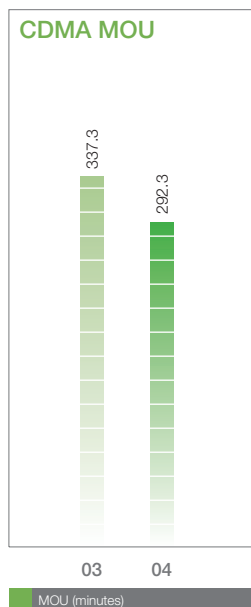
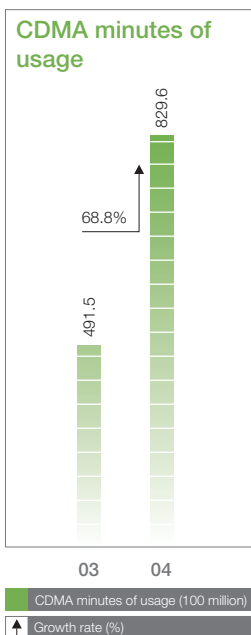
have been successfully launched and developed rapidly. The company’s differentiated edge has revealed gradually.

### II. Business review

#### 1. Rapid growth in CDMA business

##### 1) Product and subscribers composition

The Company is the exclusive operator of high-quality CDMA wireless service in China, and has CDMA international roaming business with 15 operators in 12 countries and regions. In August 2004, the Company successfully launched the “Worldwind” dual-mode handset business based on GSM and CDMA networks, realizing truly seamless roaming worldwide.



As of 31 December 2004, the total number of CDMA subscribers was 27.814 million, with a net addition of 8.868 million from 18.946 million subscribers at the end of 2003. Of this total, post-paid subscribers reached 25.824 million, representing a net addition of 7.843 million from 17.981 million subscribers at the end of 2003; pre-paid subscribers were 1.991 million, with a net addition of 1.026 million from 0.965 million subscribers at the end of 2003. The proportion of the pre-paid subscribers was 7.2%. In 2004, under the accelerated competition for high-end users in the market, the monthly average churn rate of CDMA business increased to 1.49% from 1.1% in 2003.

The "Worldwind" dual-mode handset business developed rapidly. As of 31 December 2004, 200 thousand "Worldwind" dual-mode handsets have been sold and the subscribers of "Worldwind" dual-mode handsets business reached 160 thousand.

## 2) Minutes of usage

In 2004, the total minutes of usage for CDMA subscribers were 82.96 billion minutes, representing an increase of 68.8% from 49.15 billion minutes in 2003.

## 3) Monthly average minutes of usage (MOU) and average revenue per user (ARPU)

In 2004, the average MOU per subscriber per month for CDMA business were 292.3 minutes, representing a decrease of 45.0 minutes from 337.3 minutes in 2003. ARPU was RMB 85.3, representing a decrease of RMB 40.5 from RMB125.8 in 2003.

## 2. Continually steady growth in GSM business

### 1) Product and subscribers composition

The Company provides high quality GSM cellular services in China, having GSM international roaming service with 211 operators in 101 countries and regions.

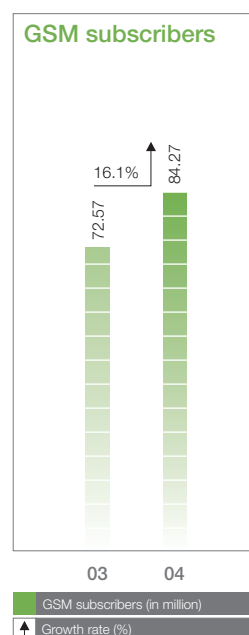
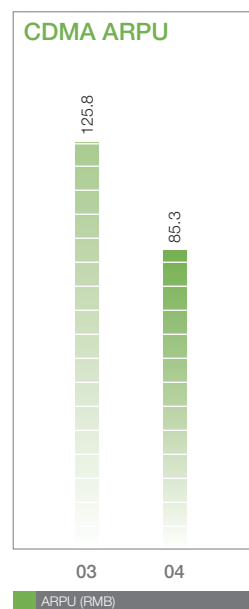
As of 31 December 2004, the total number of GSM subscribers was 84.267 million, with a net addition of 11.697 million from 72.570 million subscribers at the end of 2003. Of this total, post-paid subscribers reached 42.844 million, representing a net addition of 3.282 million from 39.562 million subscribers at the end of 2003; pre-paid subscribers increased to 41.423 million from 33.007 million at the end of 2003, representing a net addition of 8.416 million. The proportion of pre-paid subscribers was 49.2%. In 2004, the monthly average churn rate of GSM business decreased to 2.3% from 2.6% in 2003.

### 2) Minutes of usage

In 2004, the total minutes of usage for GSM subscribers were 178.16 billion minutes, representing an increase of 24.5% from 143.08 billion minutes in 2003.

### 3) Monthly average minutes of usage (MOU) and average revenue per user (ARPU)

In 2004, the average MOU per subscriber per month for GSM business were 188.9 minutes, representing an increase of 11.5 minutes from 177.4 minutes in 2003. ARPU was RMB 49.4, representing a decrease of RMB 6.9 from RMB 56.3 in 2003.





## Cellular Services



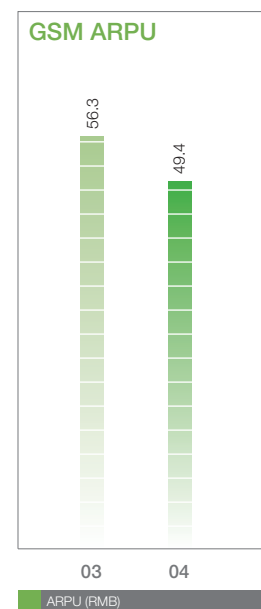
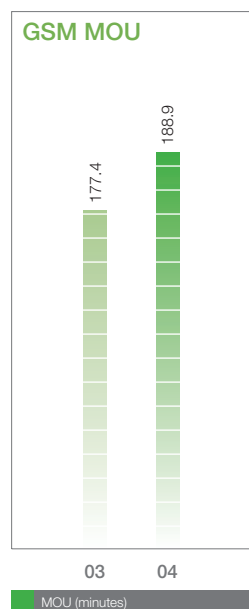
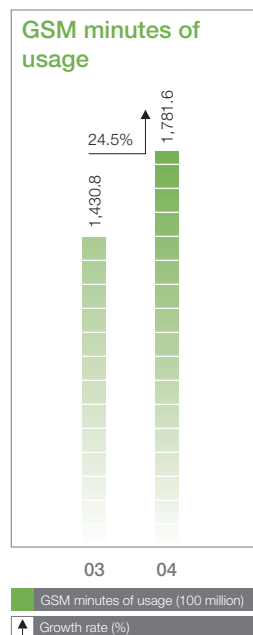
### 3. Constantly rapid growth in wireless value-added services

Leading by market requirement, the Company constantly enhanced R&D and promotion of wireless value-added services, to improve the penetration, usage and attractiveness of value-added services, further transforming technology edge to market edge.

In 2004, SMS volume reached 44.22 billion messages, representing an increase of 26.9% from 34.84 billion messages in 2003. Of which, CDMA SMS volume was 11.83 billion messages, representing an increase of 72.7% from 6.85 billion messages in 2003; GSM SMS

volume was 32.39 billion messages, representing an increase of 15.7% from 27.99 billion messages in 2003.

The Company made breakthrough in the development of CDMA 1X wireless data services under the unified brand of “uni”, which included sub-brands of “Uni-Info”, “U-Info”, “U-Mail”, “U-Magic”, “U-Map” and “Uni-Web”, and “U-Net”, which represents wireless internet access service for laptop. As of 31 December 2004, the subscribers of CDMA 1X wireless data services reached 8.711 million, of which, the subscribers of “U-Info” reached 8.371 million and the subscribers of “U-Net” were 340 thousand.



# Long Distance Services

## 4. Steady growth in Long distance, data and Internet businesses

### 1) International and domestic long distance business

The total minutes of the Company's outgoing international and domestic long distance calls increased to 24.05 billion minutes in 2004 from 19.83 billion minutes in 2003, attaining a market share of 12.7%. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, increased to 2.75 billion minutes in 2004 from 1.91 billion minutes in 2003.

- *PSTN long distance business*

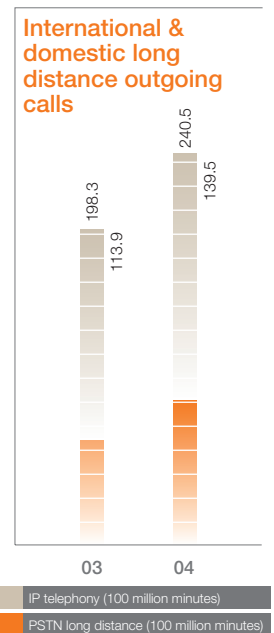
As of 31 December 2004, PSTN long distance business covered 332 cities, representing 98.2% nationwide coverage. The total minutes of PSTN outgoing long distance calls accounted for 10.10 billion minutes, representing an increase of 19.6% from 8.44 billion minutes in 2003. Of which, domestic long distance calls accounted for 9.95 billion minutes, whilst international long distance calls, together with Hong Kong Macau and Taiwan long distance calls amounted to 0.16 billion minutes. Total minutes of incoming international calls were 2.47 billion minutes.

- *IP long distance business*

The Company's IP telephony service covered all cities in the country and international roaming was available in 34 countries and regions. In 2004, the total minutes of IP outgoing long distance calls reached 13.95 billion minutes, representing an increase of 22.5% from 11.39 billion minutes in 2003. Of which, domestic long distance calls accounted for 13.81 billion minutes, whilst international, together with Hong Kong, Macau and Taiwan long distance calls totaled 0.14 billion minutes. The total minutes of incoming international calls amounted to 0.28 billion minutes.

### 2) Leased line business

The Company offers a variety of leased line services to meet customers' different bandwidth requirements. As of 31 December 2004, total bandwidth leased out was 52,000 x 2Mbps.



## Data and Internet Services

### 3) Data business

As of 31 December 2004, total bandwidth leased for Asynchronous Transfer Mode (“ATM”) and Frame Relay (“FR”) carrier operations amounted to 9007 x 2Mbps. The terminals of “Uni-Video” broadband video-telephony service accumulated to 337 thousand.

### 4) Internet business

As of 31 December 2004, the Company provided the “Uninet” Internet access service in 328 cities in China, having “Uninet” international roaming service with 103 countries and regions. Internet subscribers increased to 13.625 million from 12.432 million in 2003. As of 31 December 2004, the subscribers of “Ruyi Mailbox” attained 14.690 million.

## Network Infrastructure

### III. Construction of network infrastructure

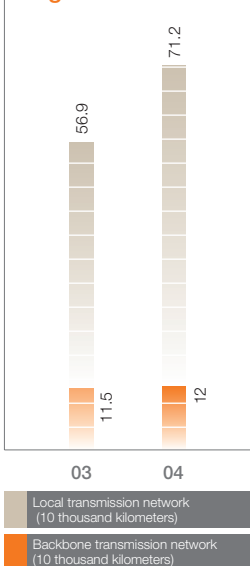
In 2004, the Company constantly optimized the infrastructure transmission network, strengthened network optimization and operation and maintenance management, took more effort on the construction of supporting systems, such as network management and billing system. As the result, the quality of network operation had been effectively improved.

The Company has a technique-advanced and reliable optical fiber transmission network with nationwide coverage (except for Tibet). In 2004, the Company initially established operation-supporting system of transmission network that covered 30 provinces in the country, realized real time control of end-to-end circuit and assured rapid and high-quality services. As of

31 December 2004, the optical fiber transmission network totaled 712 thousand km in length with coverage of 326 cities in the country, of which optical fiber backbone transmission network accounted for 120 thousand km in length. The Company actively cooperated with other operators to share and complement resources among each other. By means of mutually providing secured transmission circuit for each other, jointly constructing infrastructure and purchasing international marine cable resources, the Company reduced the costs of network construction, operation and maintenances.

With the progress of phase III project of nationwide CDMA network constructed by our Parent Company, the coverage and quality of CDMA network improved significantly. The CDMA high-quality network was basically

Optical fiber transmission network length



established, providing reliable network for better marketing activities. In 2004, CDMA network wireless connection rate reached 99.6%, call drop rate was less than 0.45%.

The Company takes continuous effort to explore the potential of the exiting GSM network, and keeps on complementing, optimizing and improving the network to meet the market demand. As of 31 October 2004, the GSM network has been expanded to Tibet in trial, which means all 31 provinces in the country was connected by GSM network. In 2004, GSM network wireless system connection rate reached 98.8% and call drop rate was less than 1.0%.

## IV Sales and marketing

### 1. Marketing strategies

In 2004, the Company persisted the principle of “open, cooperation and win-win” when actively leading and supporting the development of the CDMA industry value chain. By fully effected the function of “organization, introduction and coordination”, the Company intensively engaged into CDMA terminal purchasing, enhanced service supporting and standardization management for SPs/CPs, and actively pushed the development of CDMA industry value chain. Those efforts aimed to solve the bottleneck of CDMA development. Through aggregated purchase of CDMA handset, the “Cool Phone”, the entry barrier caused by high-cost handset was reduced and the attractiveness of CDMA business for the mass market was improved. By offering trial package to CDMA 1X users, the penetration of CDMA 1X wireless data service among the existing subscribers was increased. Meanwhile, the GSM business focused on providing voice

and short message services, speeded up its “Cool Ring Tong” service promotion, and effectively increased customer value with a growing customer base.

The Company fully leveraged the edge of integrated businesses. In particular, according to the specific demand of industry and corporate customers, VPN, IP telephony, “Uni-Video” broadband video-telephony and “Uninet” services were bundled together to offer customerized communication solutions. Meanwhile, as the result of emphasizing service creation, the Company launched various industry applications, such as “Unicom Horizon Police Application”, “Unicom Horizon Maritime Application” and “Stock-in-Palm” looking for a win-win cooperated relationship between the Company and industry customers.

### 2. Brand marketing strategies

In 2004, the Company actively deployed brand-marketing activities, driving business by brand promotion, to improve the Company’s brand image. The “Worldwind” and “Uni-Video” services were popularly pursued by the market. The promotion campaigns of those services won 2004 “Business Marketing Innovation Prize” of “China Marketing Ceremony” and 2004 “Product Innovation Prize” of “Commercial Innovation Prize” respectively, which improved the Company’s goodwill to a great extent.

The Company enhanced the layout and management of brand, positioned the brand and built up a clear and sustainable customer-oriented brand system. The Company comprehensively integrated the brands of wireless data value-added service, creating a new media port brand, the “uni”, for customer content consuming, focusing on



“entertainment”, “life” and “commerce”, to offer various and wonderful value-added services for customers. Meanwhile, the “U-Net” was shaped to be a high-end brand for wireless Internet access for laptop computer users. At the beginning of 2005, the Company successfully launched a new brand named “U-Power” which targeted the youth market.

### 3. Customer services

In 2004, the Company further optimized the process of customer service, provided segment and classified customer service accordingly, and supported the establishment of customer-oriented brand system. The Company offered one-to-one personalized service for industry and corporate customers, provided high-quality differentiated service for high-end individual customers and important corporate customers via customer club, and gave mass-market customers standard services with high experience apperception. Attributable to the affective heart to heart service, customer loyalty and customer satisfaction has been improved.

In order to advance analysis and management of service quality, the Company emphasized collection, analysis and data-mining of customer information, strengthened the construction of customer classification and information analysis system. Technical support was provided for making decision to innovate service and to acquire and retain customers. The Company standardized and simplified the use of customer service dial-in number by taking the opportunity of modifying customer service dial-in number, and advanced the Company’s service image through the campaign of “Satisfaction at Unicom”.

### 4. Sales and distribution channel

In 2004, the Company emphasized to strengthen the construction of sales and distribution channel for business development and customer retention, completed a flat sales channel network which has three major layers: the Company’s self-owned sales outlets and direct sales team, the cooperated sales outlets, chartered outlet chains and shop centers, and the other social agent channels. To further the depth of sales and marketing, the Company actively expanded new-type channels such as Internet and telephone marketing. As of 31 December 2004, the Company had a total of 80,300 sales outlets, of which 5640 sales outlets were self-owned.

### 5. Tariff strategies

In 2004, the Company rationally responded to the fierce price competition in the Chinese telecommunication market. To refine the management, we actively classified and integrated all kinds of tariff package, and increased the transparency of tariff policy. By establishing and enforcing the approval process of tariff policy, the Company increased its instruction to the provincial branches and tightened the control of tariff, which helped to prevent the tariff from declining further, and to assure the profitability of subscriber growth.

## V. Business development strategies for 2005

In 2005, subject to the requirements of scientific development, the Company will persist the strategy of rational, practical and active development. Led by market demand, the Company will actively promote business innovation, integrate all kinds of resources, and refine management to realize effective and rapid development of every business.

Taking advantage of the service superiority and network quality, the Company will take all efforts to pursue the rapid development of CDMA subscribers. By persisting marketing innovation led by market demand, the Company will strengthen coordination and management of CDMA handset purchase, enhance its expansion in the existing market, the net addition market, and the youth market. Meanwhile, the Company will speed up the development of value-added services, especially the CDMA 1X wireless data services, to drive growth of net addition subscribers and increase value of existing customers.

Along with the exploration of GSM network potential and assurance of steady growth, the Company will intensify the retention and stabilization of the exiting subscribers, reduce churn rate, and control marketing and sales cost. While assuring the stabilization of ARPU, we will take more effort to market voice traffic in the existing market, through offering bonus points or bundling gift-pack value-added service, to stabilize existing subscribers base and insure the stabilization and growth of revenue and profit.

The Company's competitive advantage of offering differentiating services is best demonstrated by value-added services, particularly the CDMA 1X VAS. This year the Company will focus on the promotion of SMS type services, "U-Net" service, "U-Info" service, and "Cool Ring Tone" service. The Company will leverage the growth potential of SMS type services and increase the traffic volume, consolidate marketing policy for "U-Net" to realize fast growth, boost the subscribers and usage of "U-Info", and speed up construction and promotion of "Cool Ring Tong" to create new growth engine.

The Company will realize steady development of long distance, data and Internet business by sufficiently utilizing mobile network resource. By constantly providing high-value-added services for existing mobile subscribers, the Company will emphasize the growth of corporate customers, commerce customers, public customers and traveling customer group, strengthen the development of voice, leased line, dedicated line Internet access, "Uni-Video" service, "Unicom One Net" service and broadband-based value-added services.

The Company will fully leverage the edge of integrated businesses, break boundaries of different businesses, and actively consolidate all kinds of resources. To meet customers' request, the Company'll deploy service bundling, i.e. combination of voice and value-added services, mobile, data and Internet services, to form all kinds of competitive solution and drive industry and corporate customers growth.

In order to improve customer ascription, the Company will continually fine-tune the construction of customer-oriented brand, enhance cultivation of the four customer brands of "Worldwind", "New Horizon", "U-Power" and "Ruyi Tong" for cellular business, and promote the "uni" brand for wireless value-added services. The Company will improve the construction of business supporting system and deploy advanced information technology to provide the front-line service force with better support. It is also the Company's intention to improve operational analysis, enhance market planning and channel control, unify and standardize the brand image exhibited in sales channel. By means of persistently refining and improving its sales and service ability, the Company will realize sustainable, rapid and profitable development.