

Chairman's Statement



Chang Xiaobing Chairman and CEO

2005 saw the Company strive to adopt development strategies that were consistently rational, practical and active. The implementation of these strategies enabled us to drive the transformation of our business model and helped to accelerate growth effectively. The year just ended was notable for the stable development of all business areas and a steady rise in business revenues. The year was also marked by an increase of the Company's profitability level and strengthening of internal control management.

Our business revenue demonstrated stable growth. For the year of 2005, the Company's revenue reached RMB87.05 billion, an increase of 10.1% over 2004. Revenue from our cellular business totaled RMB82.46 billion. Revenue from the GSM business was RMB52.14 billion, an increase of 9.7% from 2004. Revenue from our CDMA business also grew, rising 16.4% to reach RMB30.32 billion. Revenue from our value-added cellular business surged to RMB11.96 billion, an increase of 65.2% from 2004, accounting for 15.0% of total service revenue generated by our cellular business, making it an important new revenue source of the cellular business. Revenue from the long-distance, data and Internet business amounted to RMB4.59 billion.

In 2005, the Company's profit for the year was RMB 4.93 billion, representing an increase of 9.7% over 2004. Earnings per share during the year were RMB0.392. EBITDA was RMB28.44 billion and EBITDA margin reached 32.7%. Free cash flow for the year was RMB13.19 billion. The liabilities-to-assets ratio was further improved.

The Board of Directors is pleased to announce that it has recommended the payment of a final dividend of RMB0.11 per share for 2005. If the proposed dividend is approved at the Company's Annual General Meeting, the Company will pay the dividend around 8 June 2006.

Review of 2005

The transformation of business model driving all businesses to grow effectively

During 2005, the Company actively pursued a business model that emphasized efficiency rather than scale. This involved our subjecting investment costs to greater control and our optimizing of investment structures to further enhance investment effectively. The year just ended also saw the Company implement strict control on costs and expenses, with a particular emphasis on improving the relationship between sales and marketing costs and business revenues. While maintaining its market-oriented and market segmentation strategies, the Company implemented a new brand sales and marketing strategy with "Worldwind", "U-Power", "Ruyi Tong" and "Unicom Horizon" brands as its core drivers. The Company further managed to stabilize tariff through management enhancement and package integration. The Company also added an appropriate number of self-owned sales outlets and further accelerated the development of social sales and marketing channels. As a result, our subscriber number, revenue scale and profits all continued to increase steadily throughout the year.

As at 31 December 2005, the Company had a total of 127.794 million cellular subscribers, with a net addition of 15.713 million cellular subscribers, representing 34.5% of the China cellular market.

In accordance with our guiding principle of emphasizing both the development and maintenance of our GSM business, 2005 saw us establish and improve customer maintenance systems. Our ultimate goal was to stabilize our subscriber base and ARPU value and to increase profits via the expansion of new markets and the improved control of bad debts. As at 31 December 2005, our GSM subscriber base reached 95.072 million subscribers, with a net addition of 10.805 million subscribers.

Our CDMA business involved a significant drive in transforming the CDMA sales and marketing model, with particular emphasis on the expenditure effectiveness of sales and marketing costs. Specific tasks undertaken in this area included strengthening the management of handsets purchasing. Such strategies played a vital role in effectively reducing the cost of, and inventory risks associated with CDMA handsets, and also helped to significantly reduce amortisation pressure on future handsets. As a result, the operating effectiveness of our CDMA business was greatly improved and the business achieved profitability during the second half of 2005. As at 31 December 2005, our CDMA subscriber base reached 32.722 million subscribers, a net addition of 4.908 million subscribers.

Our integrated approach of merging mobile voice offerings has succeeded in propelling differentiated operations for our products and services. This has in turn paved the way for the rapid development of our value-added cellular business. During 2005, our SMS

volume reached 54.53 billion messages, an increase of 23.3% over 2004. The subscriber base for our "Cool Ringtone" service has also grown and now exceeds 21.949 million subscribers. By the end of the year, the subscriber base for our CDMA 1X wireless data service stood at 15.050 million subscribers, an increase of 72.7% over last year.

In the areas of long-distance, data and Internet, the Company has actively adjusted its product structure and strengthened the integration of its mobile and fixed network resources. These steps have enabled us to commence development of effective businesses in regions with high sales potential. Our long-distance, data and Internet business volume has continued to grow steadily. During 2005, outgoing calls for international and domestic long distance telephone business reached 25.21 billion minutes, an increase of 4.8% over last year.

Further enhancement of communication network quality and customer service standards

Leveraging its requirements for market development, the Company has strengthened the optimization of communication networks in order to ensure their stable quality. We have also significantly increased our GSM network's capacity in regions with high effectiveness and tight network resources. In some cities, we have even upgraded our GSM networks to GPRS. Our core focus in our CDMA network growth has been on optimizing indoor coverage which further demonstrates the many advantages of this high quality service. The strengthening of our interconnection and inter-communication capabilities has also helped us to expand the scope of our international roaming service and increase the quality of

intra-network communications and international roaming. As at 31 December 2005, roaming services for our GSM network had been launched with 248 operators in 118 countries and regions. We have also launched CDMA network roaming services with 18 operators in 15 countries and regions. Wireless connectivity rates for our GSM and CDMA networks achieved respective figures of 98.7% and 99.8%.

The last year saw the Company continue to make positive efforts in integrating resources, optimizing service flows and further enhancing the services provided at its Customers' Club, as well as strengthening cooperation with value-added service providers. The result of our endeavors was a marked reduction in the number of customer complaints. The implementation of a professional customer service certification system has also helped the Company to further improve its service standards and heighten customer satisfaction levels.

Further improvements in internal control and corporate governance

In 2005, we further improved our internal control system and control procedures by reference to relevant regulatory requirements including those laid down in the Sarbanes-Oxley Act. The year also saw us rationalize our business flow in order to better identify risk control targets. Additional measures in this area included the development of an internal control manual to improve relevant systems, the offering of tailored training for internal control staff and the detailing of internal control responsibilities to each staff member. Internal control was also included as part of the Company's performance appraisal for all relevant staff to ensure effective implementation.

Achievements on technical innovations and the development of international operation

In 2005, our ATM+IP Unified Platform was honoured with First Prize in "National Technological Innovation". Our "Sichuan Agriculture Information Online" project also received Top Prize in UN Summit on Information Society, while our pioneering G&C dual-mode mobile communication system was recognised with First Prize by the National Communication Academy.

On 18 October 2005, the launch of our new CDMA network in Macau made us the first mainland Chinese telecommunications operator to provide mobile communications services outside Mainland China.

Outlook for 2006

China Unicom will face a myriad of new development opportunities and challenges in 2006. The Company will respond by continuing to adopt development strategies that are consistently rational, practical and active. Our teams will also strive to deepen the transformation of the Company's proven business model and endeavor to optimize the Company's investment structure. The year ahead will also see us step up our efforts to develop new markets and further accelerate the enhancement in our service quality, as well as to improve our profitability and establish sound internal control management systems, with an ultimate goal of increasing our comprehensive competitiveness and strengthening our Company's ability for sustainable growth.

The coming year will mark the launch of the umbrella "Connecting you freely" brand via which we intend to implement sales and marketing strategies for our different brands.



Shang Bing President

The new strategy will see us devoting our full energies in building up our four top customer brands, namely "Worldwind", "U-Power", "Ruyi Tong" and "Unicom Horizon". A new long-distance, data and Internet business brand called "Connecting on e Net" will be created and the "uni" value-added business brand will be rebuilt as well. We will also add a new service brand called "Unicom 10010" to consolidate all service resources. The core objective of these activities is to upgrade our brand recognition and corporate image and to offer different services under different grades and brands.

In expanding our GSM business, we will fully explore network resources and place an equal emphasis on existing subscriber maintenance and market development. We will also take effective measures to improve subscriber maintenance, standardize our tariff policy and stabilize the subscriber ARPU value so as to maintain the stability of our subscriber base. The Company will also make great efforts in developing markets at both county and village level, and in the youth, city and immigrating population markets. All of these activities will play a vital role in helping us to maintain the steady expansion of our GSM business.

The Company plans to grow its CDMA business by making full use of various sales and marketing resources and continuously emphasizing effectiveness, as well as imposing greater control on the handsets market and integrating sales and marketing channels. We will continue to sharpen our competitive edge by differentiating our CDMA business, to further accelerate business growth. At the same time, we plan to drive the scale-up development of corporate clients by enhancing the promotion of corporate and industry applications.

Our value-added cellular business will continue to develop based on market segmentation, to ensure steady growth of revenue from our SMS, "Cool Ringtone" service and voice valued-added businesses. We will also make every effort to promote various new businesses that focus on handset music, information and games. The end result should be a rapid increase of the penetration rate of our CDMA 1X and the GPRS wireless data businesses in several cities. The active promotion of businesses such as "U-Net", handset navigation and instant messaging will all further accelerate the growth momentum of our value-added business.

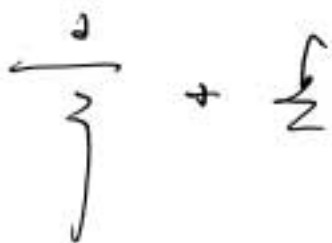
Our long-distance, data and Internet business will continue to be based on the principle of "Voice Comes First and Data is the Base". The Company intends to increase its revenue in this area by adjusting its product structure to include integrated sales and marketing that combines both our mobile and fixed data services.

In 2006, the Company will continue to strive for internal control development and improve its corporate governance. The construction of an improved internal control system will also help us to reduce all kinds of operating risks and increase our operating efficiency.

The Company will also continue to optimize its investment structure, control costs and expenses and adjust its debt structure with a view to increasing the Company's overall effectiveness.

Looking ahead, China Unicom will continue to confront the various challenges that lie ahead with full confidence so as to create even better value for its shareholders.

In closing, I would like to express my heartfelt thanks to our shareholders and to the community as a whole for its support of the Company. I would also like to take this opportunity to thank each and every one of our staff for all their hard work and effort during 2005.



Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 23 March 2006