



Business Overview

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I. SUMMARY

In 2005, facing an ever-changing market environment and the intensive competition, the Company maintained its rational, practical and active development strategy. Directed by the market, the Company actively promoted the transformation of its development model, improved business execution and realized continuous and healthy growth of its core businesses.

The subscriber base of GSM and CDMA businesses grew continuously. As of 31 December 2005, the Company had a total of 127.794 million cellular subscribers, representing an increase of 14.0% from 2004. The Company's total market share in its serviced areas steadied at 34.5%. GSM subscribers amounted to 95.072 million, representing an increase of 12.8% from 2004, while CDMA subscribers amounted to 32.722 million, representing a growth of 17.6% from 2004.

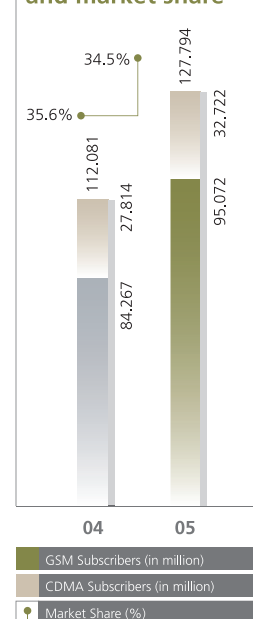
Mobile value-added services ("VAS") continued to grow rapidly. In 2005, SMS volume reached 54.53 billion messages, representing an annual growth rate of 23.3%. The net addition of "Cool Ringtone" subscribers was 21.672 million, and the total number of subscribers

exceeded 21.949 million. The number of CDMA 1X wireless data service users reached 15.050 million, an increase of 72.7% from 2004. In 2005, the revenue of mobile VAS reached RMB11.96 billion, and the share of VAS revenue in total mobile service revenue increased to 15.0% from 10.1% in 2004.

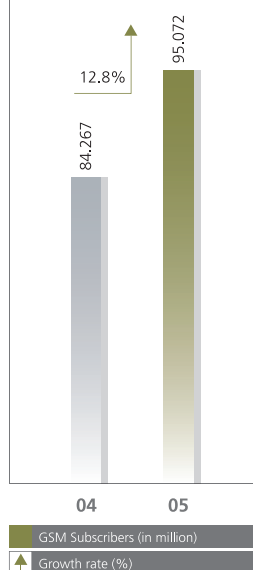
Long distance, data and Internet businesses grew steadily. In 2005, the total minutes of outgoing international and domestic long distance calls reached 25.21 billion minutes, representing an increase of 4.8% from 2004. The total numbers of "Uni-Video" broadband video-telephony service subscribers and Internet broadband service subscribers reached 446,000 and 1.346 million, respectively.

In 2005, to meet business development needs, the Company optimized its capital expenditure structure. While striving to increase its capability of network operation, the Company further improved its differentiation marketing and market competition capabilities, by establishing brand names for different customer segments, consolidating sales and marketing resources, including channels, terminal and customer service.

Cellular subscribers and market share



GSM subscribers



II. BUSINESS REVIEW

1. Steady growth of GSM business

a) Product and subscribers composition

The Company provides GSM cellular services in Mainland China, and offers GSM international roaming service through 248 operators in 118 countries and regions.

As of 31 December 2005, the total number of GSM subscribers was 95.072 million, with a net addition of 10.805 million to 84.267 million subscribers at the end of 2004. Of this total, post-paid subscribers reached 48.166 million, representing a net addition of 5.322 million; pre-paid subscribers increased to 46.905 million, representing a net addition

of 5.482 million. In 2005, the average monthly churn rate for GSM business was 2.41%, slightly higher than the 2.30% level in 2004.

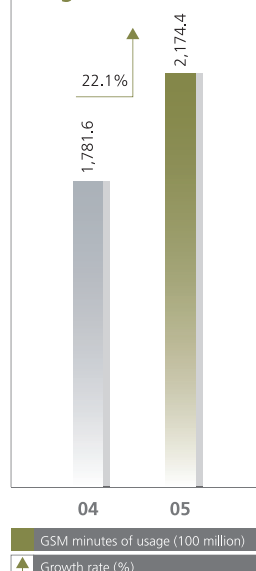
b) Minutes of usage

In 2005, the total minutes of usage for GSM subscribers were 217.44 billion minutes, representing an increase of 22.1% from 178.16 billion minutes in 2004.

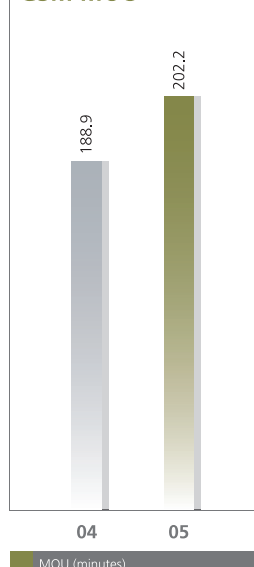
c) Monthly average minutes of usage (MOU) and average revenue per user (ARPU)

The Company fully utilised network capacity and price leverage to conduct usage volume marketing promotion targeting different time slots and different areas. 2005 saw an increase of MOU per subscriber per month for GSM business. In 2005, the average MOU per subscriber per month for GSM business were 202.2 minutes, representing an increase of 13.3 minutes from 188.9 minutes in 2004. ARPU for GSM business in 2005 decreased to RMB48.5 from RMB49.4 in 2004.

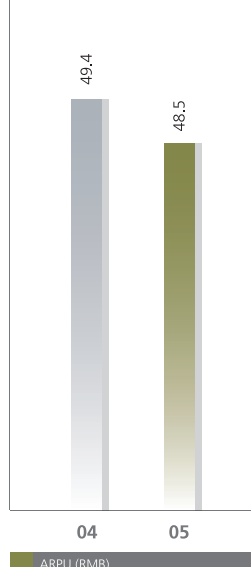
GSM minutes of usage



GSM MOU



GSM ARPU



2. Relatively rapid growth of CDMA business

a) Product and subscribers composition

The Company conducts CDMA businesses in Mainland China and Macau, and has CDMA international roaming business with 18 operators in 15 countries and regions.

As of 31 December 2005, the total number of CDMA subscribers was 32.722 million, with a net addition of 4.908 million from 27.814 million in 2004. Of this total, post-paid subscribers reached 30.010 million, representing a net addition of 4.186 million; pre-paid subscribers were 2.713 million, with a net addition of 0.722 million. In 2005, the average monthly churn rate for CDMA business was 1.49%, the same as that in 2004.

On 12 April 2005, the Company officially launched GSM and CDMA "Worldwind" dual-mode card service based on the "Worldwind" dual-mode handset business, thereby enhancing the brand recognition of "Worldwind" business. As of 31 December 2005, the number of "Worldwind" dual-mode service subscribers reached 254,000.

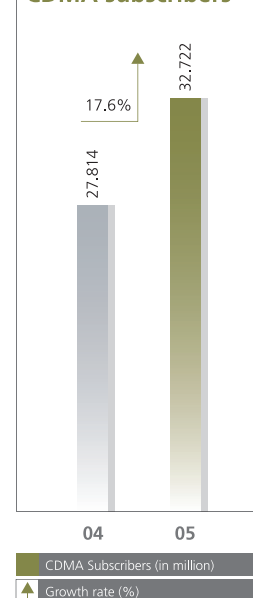
b) Minutes of usage

In 2005, the total minutes of usage for CDMA subscribers were 101.75 billion minutes, representing an increase of 22.6% from 82.96 billion minutes in 2004.

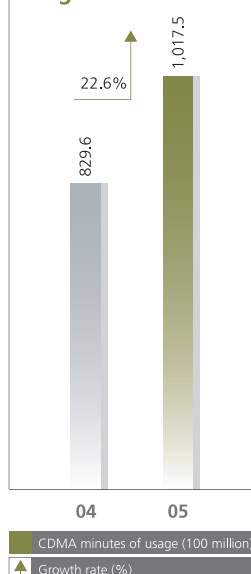
c) Monthly average minutes of usage (MOU) and average revenue per user (ARPU)

In 2005, the average MOU per subscriber per month for CDMA business were 276.9 minutes, representing a decrease of 15.4 minutes from 292.3 minutes in 2004. ARPU for CDMA business was RMB 75.1, representing a decrease of RMB 10.2 from RMB 85.3 in 2004.

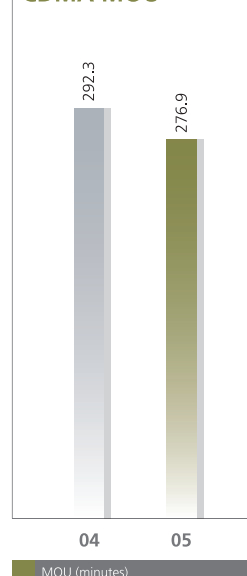
CDMA subscribers



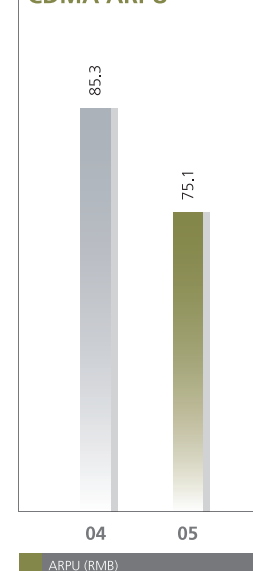
CDMA minutes of usage



CDMA MOU



CDMA ARPU



3. Rapid growth of wireless value-added services

Directed by customer needs, the Company accelerated the market penetration of SMS and “Cool Ringtone” services, further improving customer value. At the same time, the Company accelerated the market promotion of CDMA wireless data service, developed custom consumption patterns, constantly enhanced innovation and reinforced and expanded the differentiated advantage in wireless value-added service.

In 2005, SMS volume reached 54.53 billion messages, representing an increase of 23.3% from 44.22 billion messages in 2004. Of this total, GSM SMS volume was 39.51 billion messages, representing an increase of 22.0% from 32.39 billion messages in 2004; CDMA SMS volume was 15.02 billion messages, representing an increase of 27.0% from 11.83 billion messages in 2004.

In 2005, the Company witnessed strong growth in “Cool Ringtone” service, with a total net addition of 21.672 million subscribers. Of this total, GSM net addition reached 16.307 million, and CDMA net addition was 5.365 million. As of 31 December 2005, the total number of “Cool Ringtone” subscribers was 21.949 million. Of this total, GSM “Cool Ringtone” subscribers reached 16.460 million, and CDMA “Cool Ringtone” subscribers was 5.489 million.

In 2005, the Company took full advantage of CDMA 1X wireless data services, actively expanded the services such as “U-Info”, “U-Mail”, “U-Magic”, “U-Map” and “U-Net”. In 2005, the net addition of subscribers of “U-Info” was 5.973 million, and the net addition of subscribers of “U-Net” was 366,000. As of 31 December 2005, the total number of CDMA 1X wireless data service subscribers was 15.050 million, an increase of 72.7% from 2004.

4. Steady growth of long distance, data and Internet business

a) International and domestic long distance business

The total minutes of the Company's outgoing international and domestic long distance calls increased to 25.21 billion minutes in 2005 from 24.05 billion minutes in 2004. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, increased to 2.59 billion minutes.

• PSTN long distance business

In 2005, the total minutes of PSTN outgoing long distance calls accounted for 10.48 billion minutes, representing an increase of 3.7% from 10.10 billion minutes in 2004. Of this, domestic long distance calls accounted for 10.33 billion minutes, whilst international long distance calls, together with Hong Kong, Macau and Taiwan long distance calls, amounted to 0.15 billion minutes. Total minutes of incoming international calls were 2.34 billion minutes.

• IP long distance business

International roaming of the Company's IP telephony service has been available in 34 countries and regions. In 2005, the total minutes of IP outgoing long distance calls reached 14.73 billion minutes,

representing an increase of 5.6% from 13.95 billion minutes in 2004. Of this, domestic long distance calls accounted for 14.60 billion minutes, whilst international long distance calls, together with Hong Kong, Macau and Taiwan long distance calls, totaled 0.13 billion minutes. The total minutes of incoming international calls amounted to 0.25 billion minutes.

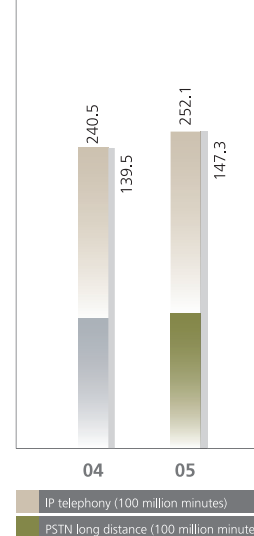
b) Network element lease and video telephony business

The Company offers a variety of leased line, Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") services to meet customers' different bandwidth requirements. As of 31 December 2005, total bandwidth leased out was 65,000 x 2Mbps. The total subscribers of "Uni-Video" broadband video-telephony service reached 446,000.

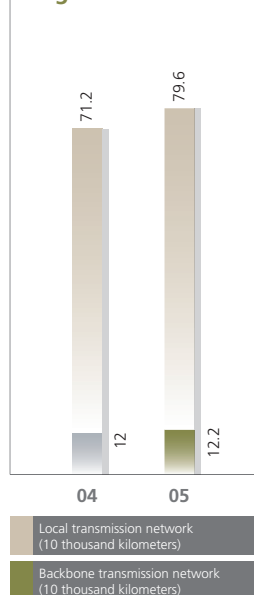
c) Internet business

As of 31 December 2005, the subscribers of dial-up Internet access decreased to 7.146 million, and the subscribers of dedicated line Internet access and broadband subscribers reached 38,000 and 1.346 million respectively.

International & domestic long distance outgoing calls



Optical fiber transmission network length



III. CONSTRUCTION OF NETWORK INFRASTRUCTURE

In 2005, the Company optimized, supplemented and improved the network based on market development needs, and upgraded GSM network to GPRS network in four cities. The Company fully utilised the specialized network management systems of each different business, to improve network operation analysis, completed and implemented the rules for network operation and maintenance and further improved network capacity and operation quality.

The Company has an optical fiber transmission network with nationwide coverage (except for Xizang Autonomous Region), which served as the reliable transmission platform for the Company's various businesses. As of 31 December 2005, the optical fiber transmission network totaled 796,000 km in length, of which optical fiber backbone transmission network accounted for 122,000 km.

By the end of 2005, the wireless connection rate of our CDMA network, which was leased from our parent company, reached 99.78%, and call drop ratio was less than 0.50%. The wireless connection rate of our GSM network reached 98.68%, and call drop ratio was less than 0.95%. The Company sponsored the Kekexili scientific investigating event held by the Chinese Academy of Science, which demonstrated the capability of our

telecommunication service, and enhanced the reputation of our network.

In March 2005, the Company was issued a CDMA 1X license to operate CDMA 1X business in Macau and to provide cross-region roaming services based on our comprehensive advantages. On 18 October 2005, the Company finished network construction and launched CDMA service in Macau, thereby becoming the first Mainland Chinese telecom service provider to operate outside Mainland China.

IV. SALES AND MARKETING

1. Marketing strategies

In 2005, the Company's marketing strategies were formulated with a focus on efficiency and were directed by customer needs. The GSM business continued to expand into new markets based on the strong development of SMS and "Cool Ringtone" services and effective improvement of ARPU. The CDMA business focused on resolving the shortage of handset by strengthening centralized handsets purchasing and market adjustment and control, and by adopting the marketing strategy of matching handset subsidies with customer's consumption. Facilitated by "Cool Phone" and "Ruyi Phone", the adoption of usage volume marketing and bundled VAS such as

"uni", the Company actively expanded into new markets and rural markets. At the same time, the Company built and completed a customer retention system, adopted a customer bonus awarding scheme and maintained the balance between development and stability to ensure sustained and effective development of all businesses.

The Company took full advantage of the CDMA 1X network and integrated businesses and actively pursued integrated services marketing, to provide a one-stop solution for customers. The launch of "Administrative Horizon" and "Traffic Horizon" constantly expanded the industry application of "Unicom Horizon" service. The Company developed "Sichuan Agriculture Information Online" by integrating mobile, data and Internet network resources and information resources, which accelerated rural mobile market development while effectively promoting agriculture information and was awarded the Top Prize in UN Summit on Information Society.

2. Brand marketing strategies

In 2005, the Company thoroughly executed its branding plan, formed a preliminary brand marketing system with four customer brands - "Worldwind", "U-Power", "Ruyi Tong" and "Unicom Horizon". At its core "U-Power" was driven by the VAS services, such as SMS, "Cool Ringtone" and "uni", to expand into youth and student markets.

"Worldwind" continued to strengthen its high-end brand image through its high quality differentiated service and the launch of dual-mode handset. "Unicom Horizon" was repositioned as a group customer brand providing group and industry applications. The Company improved its brand image and customer base by targeting differentiated market with customized services and sub-brands.



3. Tariff strategies

In 2005, based on the design philosophies of products for each customer brand, the Company further adjusted and integrated existing tariff packages, and clarified main stream packages for each customer brand. Based on cost effectiveness analysis and market needs, the Company studied tariff models for different market segments, and strengthened its guidance and management of tariffs at the provincial branch company level. The Company also regulated tariff policy, strictly implemented the approval and management system for new tariff policies and improved tariff stability.

4. Sales and distribution channel

In 2005, the Company strengthened the readjustment of sales and distribution channels. Based on the reasonable layout of sales points, the Company increased its own sales outlets, facilitated and promoted the rapid growth of cooperated sales outlets, chartered outlet chains and shops and increased the proportion of core and main stream stores of the channel of the Company. As of 31 December 2005, the Company had a total of 120,000 sales outlets, of

which over 6,000 were self-owned. At the same time, the Company strengthened channel control and improved the cooperation capability of channels, through the regulation of brand image, management of agents and support for the terminal management system.

5. Customer services

In 2005, the Company actively attended to customer experience, made its public commitment to services, and effectively improved customer perception. To improve the overall standards of customer service and establish a differentiated service system, the Company adjusted and integrated the responsibilities of customer service management, improved the service contents of customer clubs, fully adopted the customer bonus awarding scheme and implemented different service levels and tiers. At the same time, through the improvement of the supervision and management of customer complaints, strengthening the service provider (SP) management, the Company effectively reduced the number of customer complaints, and improved customer satisfaction.

V. BUSINESS DEVELOPMENT STRATEGIES FOR 2006

In 2006, the Company will continue to follow the development principles that are consistently rational, practical and proactive. To fully implement brand marketing strategy, the Company will launch an umbrella "connecting you freely" brand, promote the four customer brands of "Worldwind", "U-Power", "Ruyi Tong" and "Unicom Horizon", add a new brand "Connecting on e Net" for data and fixed-line business, and rebuild the VAS brand "uni" and customer service brand "Unicom 10010". By integrating marketing resources by brand, the Company aims to develop all businesses more effectively and rapidly.

The GSM business will fully utilize network resources, with a balance between development and maintenance. By clearing up and regulating tariff policies, the Company aims to improve subscriber usage volume and VAS penetration, and to improve customer

composition and to stabilize ARPU.

The Company will make more efforts to expand into the rural market, the youth market, the city mass market and the immigrating population market, as well as strengthen marketing activities in existing markets, to maintain the trend of steady growth of GSM business.

We will utilize fully the marketing resources for CDMA business, strengthen the combination of terminal control and social agent distribution and actively promote terminal socialized sales processes, to improve the price-to-value ratio of CDMA terminal and lower customer's initial entry barrier into the network.

The Company will continually promote innovative CDMA 1X service, and enhance the CDMA differentiated competitive advantage. The Company will also focus on the promotion of group applications and industry applications, encourage the scale development of group customer business and accelerate the effective development of CDMA business.



The Company will use the customer brand as a carrier for wireless VAS, to promote VAS business based on differentiated market segments, to improve the popularity of SMS and “Cool Ringtone” services and ensure their stable revenue growth. The Company will heavily promote various new businesses with the focus on mobile music, information and games, and cultivate customer 3G consuming habits, to rapidly develop the penetration rate of CDMA 1X service and GPRS wireless data service in selected cities and accelerate “U-Net”, “Mobile Navigation” and instant message services in order to increase the overall brand competitiveness.

For long distance, data and Internet business, the Company will continue to follow the principle of “Voice Comes First and Data is the Base”, deepen the development of traditional products, such as voice dedicated lines, cards and registration businesses, actively develop fixed-line VAS business and improve their revenue generation ability and profitability. Meanwhile, the Company will optimize product

structure, to consolidate the brand “Connecting on e Net” for long distance, data and Internet businesses. By strengthening the connection between “Connecting on e Net” and mobile resources and actively adopting combination marketing, the Company aims to attain a differentiated competitiveness advantage.

The Company will further standardize construction and management of distribution channels, and increase the ability of control and penetration of main channel to supplement the implementation of brand marketing strategies. Based on the principle of combination of standardization and flexibility, the Company will continue to restructure products and enhance tariff policy management. Aiming to build the “Unicom 10010” service brand, we will improve the service regulation and standard for brands and establish a tiered service system for customer brands. Through the improvement of detailed management capacity and strengthening of execution in operation, the Company aims to constantly increase its comprehensive competitiveness.