CHINA UNICOM LTD
Form 20-F
June 28, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR	
ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2004**
OR	
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number 1-15028

CHINA UNICOM LIMITED

(Exact Name of Registrant as Specified in Its Charter)

N/A	**Hong Kong**
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

75th Floor, The Center
99 Queen s Road Central
Hong Kong
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Ordinary shares, par value HK$0.10 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, or ADSs, each representing 10 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

12,607,241,000 Ordinary Shares as of December 31, 2004.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report for the year ended December 31, 2004 contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, our strategy and future plan, our capital expenditure plan, our future business condition and financial results, our abilities to expand network capacity and increase network efficiency, our ability to develop new technology applications and offer new services, our ability to realize the advantages of code division multiple access, or CDMA, technology and successfully execute our CDMA-related strategy, our ability to leverage our position as an integrated telecommunications operator and expand into new businesses and new markets, future growth of market demand for our services, the future prospects of and our ability to integrate the acquired business, and future regulatory and other developments in the Chinese telecommunications industry.

Such forward-looking statements reflect our current views with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory policies of the Ministry of Information Industry, or MII, the State-owned Assets Supervision and Administration Commission, or SASAC, and other relevant government authorities in China, the effects of competition on the demand and price of our telecommunications services, any changes in telecommunications and related technology and applications based on such technology, and changes in political, economic, legal and social conditions in China including the Chinese government s policies with respect to economic growth, consolidations of and other structural changes in the telecommunications industry, foreign exchange, foreign investment and entry by foreign companies into China s telecommunications market. In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including the availability of adequate financing on acceptable terms, the adequacy of currently available spectrum or availability of additional spectrum and the adequate and timely supply of equipment when required. Please also see the D. Risk Factors section under Item 3.

CERTAIN DEFINITIONS

As used in this annual report, references to us , we , our, the Company and Unicom are to China Unicom Limited. Unless the context otherwi requires, these references include all of our subsidiaries. In respect of any time prior to our incorporation, references to us , we , our and Unicom are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to Unicom Group are to China United Telecommunications Corporation, our indirect controlling shareholder. Unless the context otherwise requires, these references include all of Unicom Group s subsidiaries, including us and our subsidiaries. Please also see A. History and Development of the Company under Item 4 for our current shareholding structure.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents our selected consolidated income statement data for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and our selected consolidated balance sheet data as of December 31, 2000, 2001, 2002, 2003 and 2004. The selected consolidated balance sheet data as of December 31, 2003 and 2004 and income statement and cash flow data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included in this annual report. The selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 and income statement and cash flow data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements that are not included in this annual report. The financial statements for periods prior to our restructuring and initial public offering in 2000 reflect historical results of operations and financial positions of the businesses that were transferred to us from Unicom Group in 2000 in preparation of our initial public offering.

Our financial statements are prepared in accordance with generally accepted accounting principles in Hong Kong, or HK GAAP. Under HK GAAP, prior to 2003, deferred taxation was accounted for at the current taxation rate in respect of timing differences between net income as computed for taxation purposes and net income as stated in the income statement. A deferred tax asset was not recognized unless the related benefits are expected to crystallize in the foreseeable future. Upon the adoption of SSAP 12 in 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Under HK GAAP, the adoption of SSAP 12 in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparative data presented have been restated to conform to the changed policy. A detailed description is set forth in Note 3 to the financial statements.

In addition, financial statements prepared in accordance with HK GAAP vary in certain material respects from generally accepted accounting principles in the United States, or US GAAP. In accordance with HK GAAP, we adopted the purchase method to account for our acquisitions from Unicom Group of certain cellular businesses and assets held by Unicom New Century Telecommunications Corporation Limited, or Unicom New Century, Unicom New World Telecommunications Corporation Limited, or Unicom New World, and China Unicom International Limited, or Unicom International. The acquisitions of Unicom New Century, Unicom New World and Unicom International became effective on December 31, 2002, December 31, 2003 and in September 2004, respectively, as described in A. History and Development of the Company under Item 4. Accordingly, our consolidated income statement and, except as otherwise noted, all other HK GAAP financial information for the year 2004 presented in this annual report include the operating results of Unicom New Century and Unicom New World for the year ended December 31, 2004 and the operating results of Unicom International from the effective date of the acquisition to December 31, 2004, but our consolidated income statement and all other HK GAAP financial information for the year 2003 presented in this annual report do not include the operating results of Unicom New World for the year ended December 31, 2003. Under the purchase method, our consolidated balance sheet as of December 31, 2003 includes the financial position of Unicom New Century and Unicom New World and our consolidated balance sheet as of December 31, 2004 also includes the financial position of Unicom International. In contrast, under US GAAP, these acquisitions would be accounted for as transfers of entities under common control. The financial statements prepared under US GAAP would retroactively be restated for all periods presented on a combined basis as if the acquisitions had been in effect since inception, whereby related assets and liabilities of the acquired businesses would be accounted for at historical cost and the results of operations of the acquired businesses would be included in the consolidated financial statements for the earliest period presented.

Under HK GAAP, the sale of Guoxin Paging Corporation Ltd., or Guoxin Paging, on December 31, 2003 by us to Unicom Group has been accounted for as a sale of discontinued operation. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of December 31, 2003 was recorded as the loss on sale of discontinued operation in our consolidated income statement for the year ended December 31, 2003. The operating results of Guoxin Paging from January 1, 2003 to the effective date of the sale of Guoxin Paging were included in our consolidated income statement for the year ended December 31, 2003. Under US GAAP, the sale of Guoxin Paging to Unicom Group is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value. In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separated from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as Discontinued operation - Loss from discontinued operation under US GAAP.

See Note 40 to the consolidated financial statements included in this annual report for a summary of the principal differences between HK GAAP and US GAAP that have a significant effect on our financial statements.

	As of or for the year ended December 31					
	2000	**2001**	**2002**	**2003**	**2004**	**2004**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except number of shares and per share data)					
Income Statement Data:						
Hong Kong GAAP (As restated)(2)						
Operating revenue (Turnover):						
Cellular Business	12,188	20,505	30,613	56,927	70,799	8,554
-GSM Business	12,188	20,505	27,388	40,304	46,579	5,628
-CDMA Business			3,225	16,623	24,220	2,926
Paging Business	8,483	4,342	2,161	1,403		
Long Distance Business	556	1,489	2,766	2,273	1,848	223
Data and Internet Business	540	1,820	2,793	3,437	3,663	443
Total service revenue	21,767	28,156	38,333	64,040	76,310	9,220
Sales of telecommunications products	1,925	1,237	2,244	3,596	3,022	365
Total operating revenue	23,692	29,393	40,577	67,636	79,332	9,585
Operating expenses	(18,470)	(24,129)	(33,253)	(59,122)	(71,376)	(8,624)
Operating income	5,222	5,264	7,324	8,514	7,956	961
Loss on sale of discontinued operation (Guoxin Paging)				663		
Income before taxation	4,482	5,463	6,303	6,096	6,467	781
Net income	3,324	4,602	4,598	4,217	4,387	530
-Basic net income per share(3)	0.297	0.367	0.366	0.336	0.349	0.042
-Number of shares outstanding for basic net income per share (in thousands)(3)	11,208,224	12,552,996	12,552,996	12,553,010	12,561,242	12,561,242
-Diluted net income per share(3)	0.297	0.367	0.366	0.336	0.348	0.042
-Number of shares outstanding for diluted net income per share (in thousands)(3)	11,208,224	12,552,996	12,552,996	12,568,683	12,607,241	12,607,241
-Basic net income per ADS(4)	2.966	3.666	3.663	3.359	3.492	0.422
-Number of ADS outstanding for basic net income per share (in thousands)(3)	1,120,822	1,255,300	1,255,300	1,255,301	1,256,124	1,256,124
-Diluted net income per ADS(4)	2.966	3.666	3.663	3.355	3.480	0.420
-Number of ADS outstanding for diluted net income per share (in thousands)(3)	1,121,968	1,255,300	1,255,300	1,256,869	1,260,724	1,260,724

	As of or for the year ended December 31					
	2000	**2001**	**2002**	**2003**	**2004**	**2004**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except number of shares and per share data)					
US GAAP (As restated)(2)&(5)						
Operating revenue		32,501	50,421	71,980	79,388	9,592
Operating income from continuing operations		7,921	9,759	10,710	8,185	989
Net income before discontinued operation, and cumulative effect of change in accounting policy		5,866	5,500	6,078	4,713	569
Loss from discontinued operation, net of tax		710	422	1,342		
Cumulative effect of change in accounting policy (transitional adjustment of goodwill impairment upon the adoption of SFAS 142)			42			
Net income		5,155	5,036	4,736	4,713	569
-Basic net income per share before discontinued operation and cumulative effect of change in accounting policy(3)		0.467	0.438	0.484	0.375	0.045
-Basic net income per ADS before discontinued operation and cumulative effect of change in accounting policy(4)		4.673	4.382	4.842	3.752	0.453
-Basic net income per share after discontinued operation and cumulative effect of change in accounting policy(3)		0.411	0.401	0.377	0.375	0.045
-Basic net income per ADS after discontinued operation and cumulative effect of change in accounting policy(4)		4.107	4.012	3.773	3.752	0.453
Balance sheet Data:						
Hong Kong GAAP (As restated)(2)						
Bank balances and cash	44,717	18,413	14,433	9,220	4,655	562
Property, plant and equipment, net	52,864	75,748	107,487	118,105	118,904	14,366
Total assets	113,057	128,278	149,628	149,838	145,629	17,595
Net assets	58,336	62,884	67,219	69,615	72,810	8,797
Short-term debt and current portion of other long-term debt	8,501	7,933	15,330	18,173	20,015	2,418
Obligations under finance lease-current portion		8	17	25	938	113
Obligations under finance lease-non current portion		101	101	100	489	59
Other long-term debt	27,151	36,337	37,686	36,213	26,137	3,158
Shareholders equity	57,452	62,054	66,653	69,615	72,810	8,797

	As of or for the year ended December 31					
	2000	**2001**	**2002**	**2003**	**2004**	**2004**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except number of shares and per share data)					
US GAAP (As restated)(2)&(5)						
Property, plant and equipment, net			118,787	118,171	118,701	14,342
Total assets			164,636	150,477	146,615	17,715
Obligations under finance lease-current portion			17	25	938	113
Obligations under finance lease-non current portion			101	100	489	59
Other long-term debt			45,520	36,213	26,137	3,158
Shareholders equity			64,215	65,946	69,442	8,390
Other Financial Data:						
Hong Kong GAAP:						
Net cash provided by operating activities	9,344	11,078	13,054	22,565	23,819	2,878
Net cash used in investing activities	(30,551)	(46,125)	(5,166)	(19,051)	(18,958)	(2,291)
Net cash provided by (used in) financing activities	59,921	8,743	(11,868)	(8,778)	(9,401)	(1,136)
US GAAP (As restated)(5):						
Net cash provided by operating activities		15,320	18,235	25,993	24,510	2,961
Net cash used in investing activities		(62,971)	(10,261)	(20,295)	(19,668)	(2,376)
Net cash provided by (used in) financing activities		21,015	(12,773)	(11,397)	(9,440)	(1,141)

(1) The translation of RMB into US dollars has been made at the rate of RMB8.2765 to US$1.00, the noon buying rate in New York City for cable transfer in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. The translations are solely for the convenience of the reader.

(2) The adoption of HK SSAP12 Income Tax (revised) in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparative data presented have been restated to conform to the changed policy.

(3) See Notes 16 and 40 to the financial statements included in this Form 20-F on how basic and diluted net income per share are calculated under HK GAAP and US GAAP, respectively.

(4) Net income per ADS is calculated by multiplying net income per share by 10, which is the number of shares represented by each ADS.

(5) The US GAAP amounts as of December 31, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004 are presented as if the acquisitions of Unicom New Century, Unicom New World and Unicom International had been in existence since the beginning of the earliest period presented.

Historical Exchange Rates Information

We publish our financial statements in Renminbi, or RMB, the legal tender currency in the People s Republic of China, or PRC. In this annual report, references to US dollars or US$ are to United States dollars and references to Hong Kong dollars , HK dollars or HK$ are to Hong Kong dollars. Solely for the convenience of the reader, this annual report contains translations of certain RMB and Hong Kong dollar amounts into US dollar amounts and vice versa at specified rates. These translations should not be construed as representations that the RMB or Hong Kong dollar amounts actually represent such US dollar amounts or could be converted into US dollar amounts at the rates indicated or at all. Unless otherwise stated, the translations of RMB and Hong Kong dollars into US dollars and vice versa have been made at the rate of RMB8.2765 to US$1.00 and HK$7.7723 to US$1.00, the noon buying rates in New York City for cable transfers payable in RMB or Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004.

The noon buying rates on June 24, 2005 were RMB8.2765 to US$1.00 and HK$7.7719 to US$1.00, respectively. The average noon buying rates for 2000, 2001, 2002, 2003 and 2004 were RMB8.2784, RMB8.2772, RMB8.2771, RMB8.2772 and RMB8.2768, respectively, to US$1.00, and HK$7.7936, HK$7.7996, HK$7.7996, HK$7.7864 and HK$7.7899, respectively, to US$1.00, calculated as the average of the noon buying rates on the last day of each month during each applicable year. The following table sets forth the high and low noon buying rates between RMB and the US dollar (in RMB per US dollar) and Hong Kong dollar and the US dollar (in Hong Kong dollar per US dollar) for each month during the previous six months:

Period	High	Low	High	Low
	(RMB per US$1.00)		(HK$ per US$1.00)	
December 2004	8.2767	8.2765	7.7821	7.7698
January 2005	8.2765	8.2765	7.7994	7.7775
February 2005	8.2765	8.2765	7.7999	7.7984
March 2005	8.2765	8.2765	7.7998	7.7987
April 2005	8.2765	8.2765	7.7995	7.7946
May 2005	8.2765	8.2765	7.7995	7.7767

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

Our cellular businesses face intense competition from China Mobile Communications Corporation, or China Mobile, China Telecom Corporation Limited, or China Telecom, and China Network Communications Group Corporation, or China Netcom. Such competition may result in slower subscriber growth, lower tariffs and higher customer acquisition costs for us, which would adversely affect our results of operations, financial condition and growth prospects.

Our cellular businesses face intense competition from China Mobile. China Mobile is the largest cellular operator in China and in our cellular service areas and has competitive advantages over us in customer base, overall network coverage and quality, financial resources, network management, technical expertise and brand recognition. We are experiencing intense competition from China Mobile in many of our cellular service areas, and such competition may continue and further intensify. In particular, continued price competition between China Mobile and us in many service areas has accelerated the decline of the average revenue per user per month, or ARPU, of our cellular services, and adversely affected our profitability.

Our cellular services also compete with the local wireless telecommunications services of China Telecom and China Netcom, known as Little Smart services, that are based on their fixed line networks and primarily utilize the personal handyphone system, or PHS, technology. They are offered as extensions of fixed line services and, with such features as calling-party-pays arrangements, carry significantly lower tariffs than cellular services. The Little Smart services were previously offered primarily in small- to medium-sized cities, but have been introduced in most major cities nationwide since 2003. According to public reports, currently these services have attracted over 70 million users in China and their subscriber base is continuing to grow. In addition, both China Telecom and China Netcom have indicated their interests in developing 3G wireless telecommunications services in the future, which could impose direct competition with our cellular business.

Increased competition from the cellular services of China Mobile and the Little Smart services of China Telecom and China Netcom may lead to slower subscriber growth, lower usage of our services, continued price pressure and higher costs of customer acquisition, which would adversely affect our results of operations, financial condition and growth prospects.

Our CDMA services have yet to gain a broad market acceptance in China and there is uncertainty over whether our CDMA services will succeed in gaining a broader market acceptance.

We launched our CDMA services in January 2002 and introduced CDMA 1X wireless data services in March 2003. Prior to the introduction of our CDMA services, digital cellular services in China were mostly based on the global system for mobile communications, or GSM, technology. The majority of cellular subscribers in China today continues to be GSM subscribers. CDMA cellular services compete with GSM services for cellular subscribers, who may be reluctant to switch to CDMA cellular services because of the need to obtain a new CDMA handset and phone number. CDMA services are also perceived to have limitations in international roaming due to the lack of CDMA networks in many countries. As of March 31, 2005, the total number of our CDMA subscribers has reached 29.43 million in our service areas. Nevertheless, CDMA technology and services have yet to gain broader market acceptance in China.

Whether our CDMA services can gain broader market acceptance will continue to be subject to a number of uncertainties, including:

whether we can effectively retain our existing subscribers and attract sufficient new CDMA cellular subscribers;

whether we can effectively reduce the cost of CDMA handsets and marketing expenses and strengthen the management of the purchase and distribution processes of the CDMA handsets;

whether we can effectively promote our CDMA services and successfully execute our strategy of expanding market share among industry-specific customers and the young population; and

whether we can optimize the CDMA network utilization rates and generate more revenues from value-added services by capitalizing the technological advantages of CDMA 1X.

Any of these uncertainties may adversely affect the growth and profitability of our CDMA cellular services and our overall business results of operation and financial condition.

Our CDMA and GSM businesses may compete with each other, which may adversely affect the growth and profitability of these businesses..

Although we are committed to coordinating the development of our CDMA and GSM businesses, these two businesses may compete with each other for our financial, management, human and other resources as well as cellular subscribers. For example, while we have focused on the development of our CDMA business in recent years, our investments on our GSM network has been relatively limited, which has hindered us from improving our GSM network in certain of our services areas. In addition, since we have started expanding our CDMA services to the mass market, our CDMA business may compete with our GSM business for cellular subscribers, especially mid- and low-end cellular subscribers. A portion of our CDMA subscribers were former subscribers of our GSM services. If the development of our CDMA and GSM services is not coordinated effectively or we cannot obtain adequate resources for both our GSM and CDMA cellular services, the growth and profitability of these businesses and our results of operations, financial condition and growth prospects may be adversely affected.

Our churn rates may increase.

In 2004, the monthly average churn rate of our CDMA cellular services increased to 1.5% from 1.0% in 2003. The increase in the churn rate of our CDMA cellular services was primarily due to the following factors:

- intense competition from the GSM services of our main competitor and the Little Smart services;

- the termination of CDMA services by some CDMA subscribers at the end of their contract periods under the CDMA handset promotional packages we began to offer in 2002;

- the increase in the proportion of cost-sensitive subscribers among new subscribers as a result of continuing expansion of our CDMA cellular services in the mass market; and an increase in the proportion of subscribers to our pre-paid CDMA services which are characterized by a higher churn rate than post-paid services.

While the monthly average churn rate of our GSM cellular services slightly decreased to 2.3% in 2004 from 2.4% in 2003, there is no assurance that it will not increase in the future due to increased competition. Increased churn rate may adversely affect our market share and increase our costs of additional customer acquisitions and bad debt, which would adversely affect our results of operations, financial condition and growth prospects.

Failure or inability to continue to expand and upgrade our networks timely and effectively and changes in telecommunications technology and technological standards could hinder our growth.

The growth of our businesses depends on whether we are able to continue to expand the coverage and capacity of our networks, to upgrade the technology and to improve the quality of our networks in a timely and effective manner. We also need to continue to improve the quality of our existing networks in order to enhance the quality of our telecommunications services.

In addition, the telecommunications industry in China and elsewhere in the world is subject to rapid and significant changes in technology and technological standards, including, among others, the migration from second generation mobile telecommunications to third generation mobile telecommunication, or 3G, and the development of voice-over-internet protocol technology, or VOIP. Such changes may render our networks and systems obsolete or inadequate. As a result of such changes, we may need to make significant changes and upgrades to existing networks and infrastructure or build new networks, which may require substantial capital expenditures and other resources.

Our ability to expand and upgrade our networks is subject to a number of uncertainties, including our ability to achieve the following on a timely basis and on acceptable terms:

obtain adequate financing;

retain experienced management and technical personnel;

obtain relevant government permits and approvals and gain access to office towers, residential buildings and other sites for network construction;

enter into interconnection and other arrangements with other operators;

obtain adequate network equipment and software; and

manage the technology migration in an effective manner.

Difficulties we may encounter in expanding and upgrading our networks, if not adequately resolved on a timely basis, could adversely affect our competitive position, results of operations, financial condition and growth prospects.

Our long distance, data and Internet businesses remain relatively small comparing to the fixed line operators, and competition from China Telecom, China Netcom and other cellular service providers may adversely affect our growth and profitability in these businesses.

The fixed line operators of China Telecom and China Netcom currently hold a dominant market position in the public switched long distance telephony and data services markets in China in their respective service areas. They are also the dominant providers of Internet protocol telephony, or IP telephony, and Internet access services in China. China Telecom and China Netcom have competitive advantages over us in customer base, financial resources, network coverage and last-mile access. Our IP telephony services compete with other service providers including China Satellite Communication, or China SatCom and China Railway Communications Co. Ltd., or China Railcom. In 2004, the increasingly intense competition has contributed to the decrease in average realised tariff rates for long distance services and a 19.1% decrease in our operating revenue from long distance business. The growth of our long distance, data and Internet businesses has been further hindered by our lack of licenses to operate local telephony networks as well as our lack of sufficient network number resources. Competition from China Telecom, China Netcom and other service providers may continue to adversely affect the growth and profitability of our long distance, data and Internet businesses and consequently our overall results of operations, financial condition and growth prospects.

In order to accelerate the growth of our CDMA business, we offered CDMA handset promotional packages, which increased our operating expenses in the short-term and may adversely affect our profitability.

In order to accelerate the development of the CDMA business and subscriber growth during the product introduction period, we began to offer certain CDMA handset promotional packages in the second half of 2002. Under those arrangements, CDMA handsets were provided to the subscribers for their use at no additional cost to them during the specified contract periods as long as such subscribers agreed to incur a minimum amount of service fees during the contract period. The cost of the handsets provided to subscribers under these contractual arrangements, treated as deferred customer acquisition costs, were deferred, to the extent recoverable, and amortized over the contractual periods to match with minimum contract revenue. As of December 31, 2004, amortization of such deferred customer acquisition costs amounted to approximately RMB6,121 million and the carrying amount of such costs amounted to RMB4,745 million for our wholly-owned operating subsidiaries, China Unicom Corporation Limited, or CUCL, and Unicom New World. These promotional packages tend to increase our operating expenses. In addition, some of those subscribers terminated our CDMA services at the end of their contractual periods and therefore increased our churn rate. While we substantially reduced the use of such arrangements since 2003, the carrying amount of the deferred customer acquisition costs remain significant. As of March 31, 2005, the carrying amount of such costs amounted to RMB4,408 million for us. As a result, although the use of these CDMA promotional packages has accelerated the growth of our CDMA business, they may adversely affect the profitability of our CDMA business and our overall results of operations.

In order to control the costs of our CDMA promotional packages, we have adopted the policy to centralize the purchases of CDMA handsets. As a result, we usually maintain a significant level of inventory of CDMA handsets, which is subject to the risk of inventory obsolescence. As of December 31, 2004, we maintained an inventory of CDMA handsets of RMB1,881 million.

Obstacles in interconnection with networks of other operators could jeopardize our operations.

The effective provision of our cellular, long distance telephony and other services requires the interconnection between our networks and the networks of China Telecom, China Netcom, China Mobile and other operators. Any obstacles in existing interconnection arrangements or any significant change of their terms, as a result of natural events, accidents, or for regulatory, technological, competitive or other reasons, could lead to temporary service disruptions and increased costs that can seriously jeopardize our operations and adversely affect our growth and profitability. Difficulties in the execution of new interconnection arrangements on a timely basis and on acceptable terms, including the inability to promptly establish additional interconnection links or increase interconnection bandwidths as required, could also adversely affect our operations, growth and profitability.

Unicom Group, as our controlling shareholder, can exert influence on us and cause us to make decisions that may not always be in the best interests of our other shareholders.

Unicom Group indirectly controls an aggregate of 77.37% of our issued share capital as of May 31, 2005. As our controlling shareholder, it is able to influence our major business decisions through its control of our board of directors. Some of our executive directors and executive officers also serve as directors or executive officers of Unicom Group. In addition, our operations depend on a number of services provided by Unicom Group. It leases to us, on an exclusive basis, capacity on the CDMA network located in our cellular service areas, provides us with access to international gateways, supplies us with SIM cards and calling cards and provides equipment procurement services, customer services, and certain value-added services to us. Unicom Group and we also provide a number of services to each other, including interconnection and roaming services, sales agency and collection services and provision of premises. See A. History and Development of the Company – Our Relationship with Unicom Group under Item 4 of this annual report. The interests of Unicom Group and our interests in these transactions may differ and Unicom Group may cause us to make decisions that conflict with the interests of our other shareholders.

The internal reorganization of Unicom Group for the A Share offering has created a two-step voting mechanism that will require the approval of the minority shareholders of both our Company and the A Share Company for significant connected transactions between us and Unicom Group.

In October 2002, Unicom Group completed an internal reorganization of its shareholding in our company and the initial public offering in China of the ordinary shares, or A Shares, of its newly established subsidiary, China United Telecommunications Corporation Limited, or A Share Company. As part of this restructuring, a portion of Unicom Group s indirect shareholding in our company was transferred to the A Share Company, whose business is limited to indirectly holding the equity interest of our company without any other direct business operations. A voting mechanism was established to allow public shareholders of the A Share Company to indirectly participate in our shareholders meetings and a two-step voting mechanism was established for the approval of connected transactions. See A. History and Development of the Company – Further Restructuring of Unicom Group and Initial Public Offering of the A Share Company in 2002 under Item 4 below. As a result, significant connected transactions between us or our subsidiaries and Unicom Group or its subsidiaries will require the separate approval of the independent minority shareholders both of our company and of the A Share Company. Connected transactions approved by our independent minority shareholders nevertheless cannot proceed if they are not approved by the independent minority shareholders of the A Share Company. This adds another necessary step of approval process for those transactions.

Our inability to fund our capital expenditure requirements may adversely affect our growth and profitability.

Although we have gradually reduced our capital expenditure in recent years, we continue to have a reasonable level of capital expenditure requirements. We expect to require approximately RMB18.23 billion for capital expenditure in 2005. As of December 31, 2004, the sum of our long-term and short-term interest bearing debt exceeded the amount of our cash, cash equivalents and short-term bank deposits by RMB40.83 billion. See Liquidity and Capital Resources – Capital Expenditures under Item 5. In the future we may be unable to obtain the necessary financing on a timely basis and on acceptable terms, and our failure to do so may adversely affect our financial position, competitive position, growth and profitability. Our ability to obtain acceptable financing at any time may depend on a number of factors, including:

our financial condition and results of operations,

the condition of the economy and the telecommunications industry in China,

conditions in relevant financial markets in China and elsewhere in the world, and

our ability to obtain any required government approvals for our market financings.

Fluctuations in the value of the Renminbi could adversely affect our share price and profitability and changes in the interest rate could adversely affect our cost of financing.

Substantially all of our revenues and operating expenses are denominated in Renminbi, while a portion of our borrowings, equipment purchases and other capital expenditures are denominated in foreign currencies. Although the exchange rate between Renminbi and US dollars has been stable, the exchange rate of the Renminbi may become volatile against the US dollar or other currencies in the future. Fluctuations of the Renminbi could adversely affect the value in foreign currency terms of cash flow generated from our operations or any dividends payable on our shares and ADSs, and therefore the price of our shares and ADSs. Any future Renminbi devaluations could also increase our equipment acquisition costs and operating expenses or lead to significant fluctuations in the exposure of our foreign-currency-denominated liabilities, thereby adversely affecting our profitability.

Most of our bank loans are borrowed from domestic banks at interest rates that vary in accordance with the standard guidance interest rates announced by relevant Chinese government authorities. In addition, we entered into a US$700 million term loan facility in September 2003 and a US$500 million term loan facility in February 2004, both carrying variable interest rates based on the US$ LIBOR. As a result, a significant increase in interest rates would increase our cost of new debt and the interest cost of our outstanding borrowings, which could have a material adverse effect on our financial position.

Our doubtful debt ratio may increase.

China has yet to develop an effective credit control system, and with more intense competition in the market, our doubtful debt ratio for cellular services in our service areas, calculated as the amount of provision for doubtful debt divided by revenue from cellular services may increase. As of December 31, 2004, such ratio is 2.9%, compared to 2.9% in 2003 and 2.7% in 2002. If the ratio further increases, our results of operations and financial condition could be adversely affected.

Investor confidence and the market prices of our shares and ADSs may be adversely impacted if we or our independent registered public accounting firm is unable to conclude that our internal control over financial reporting is effective as of December 31, 2006 as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to the SEC s reporting obligations. The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring each public company to include a report of management on the company s internal control over financial reporting in its Annual Report on Form 10-K or Form 20-F, as the case may be, that contains an assessment by management of the effectiveness of the company s internal control over financial reporting. In addition, the company s independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of the company s internal control over financial reporting. These requirements will first apply to our Annual Report on Form 20-F for the fiscal year ending December 31, 2006. Our management may not conclude that our internal control over financial reporting is effective. Moreover, even if our management concludes that our internal control is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over our financial reporting or the level at which our controls are documented, designed, operated or reviewed, or if the independent registered public accounting firm does not agree with our interpretation or understanding of the relevant requirements, rules or regulations, then it may decline to attest to our management s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could negatively impact the market prices of our shares and ADSs.

Risks Relating to the Overall Telecommunications Industry in China

Regulatory or policy changes relating to telecommunications industry may adversely affect our results of operations, financial condition and business prospects.

The Chinese government currently regulates many aspects of the telecommunications industry in China. Potential deregulation or restructuring of the telecommunications industry or changes in regulations and policies and their implementation could lead to changes in the overall industry environment. These changes may include, among others, new regulatory measures relating to issuance of licenses for cellular business, calling-party-pays arrangements or other tariff adjustments, fulfillment of telecommunications service providers universal service obligations and the associated expenses, usage of numbers or frequency resources and the associated fees, or standards and mechanisms of interconnection settlement, and could significantly affect our results of operations, financial condition and business prospects. For example, if the Chinese government deregulates or reduces state tariff rates applicable to some of our services or modifies other regulations of the telecommunications industry in China, our results of operations and financial condition may be adversely affected.

The Chinese government has restructured the telecommunications industry through a number of initiatives that were rolled out in stages in the past and may initiate further industry restructuring in the future. Potential restructuring of the PRC telecommunications industry, if any, may affect the overall business environment and the operations of telecommunications operators in China, including us. We cannot predict the timing for, and any implications and effect of, any future restructuring of the PRC telecommunications industry, or give any assurance that we will not be adversely affected by any such industry restructuring.

New entrants in the telecommunications industry in China, including potential 3G operators, may further intensify industry competition and adversely affect our results of operations.

Since mid-1990s, the Chinese government has taken various measures, including licensing more providers of telecommunications services, to encourage competition in the telecommunications industry. Currently, the Chinese telecommunications market has six basic telecommunications service providers China Telecom, China Mobile, China Netcom, China Satcom, China Railcom, and our company and thousands of value-added service providers. In addition, the government may grant additional telecommunications service licenses in the future, including additional licenses to provide cellular services.

The Chinese government has not publicly announced its decisions on whether it will grant any 3G licenses, and if so, the timing of the grant of the 3G licenses, the number of 3G licenses to be granted, any technical requirements, or the selection of preferred technologies. The issuance of 3G licenses to cellular service providers may significantly change the overall competition environment of the wireless telecommunications industry. While we have been preparing for developing 3G business, we cannot assure you that we will be granted the requisite approvals and licenses by the Chinese government in a timely manner, or at all. Even if we are granted a 3G license, we cannot assure you that we will successfully operate the 3G business and effectively compete with other 3G or other cellular services providers.

After its accession to the World Trade Organization, or WTO, in December 2001, China promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in China to foreign operators. When the government licenses additional telecommunications service providers in the future, licensees may include operators with foreign investment. Foreign-invested operators entering into China s telecommunications market may have competitive advantages over us in financial resources, network management and technical expertise.

Increased competition from new entrants in China s telecommunications services industry could impede the growth of our businesses, further increase competition for skilled and experienced employees, result in or exacerbate price competition and increase our customer acquisition costs and other operating expenses, and thereby adversely affect our results of operations, financial condition and growth prospects.

The telecommunications sector in China may not sustain its pace of rapid growth, which may adversely affect the growth and profitability of our business.

The telecommunications industry in China has experienced rapid growth in the last several years, especially in the cellular communications sector. The total number of cellular subscribers in China increased from 43.2 million at the end of 1999 to 334.8 million by December 31, 2004. Cellular penetration increased from 3.0% to 25.9% nationwide during the same period. The growth in cellular subscribers may slow down as cellular penetration continues to increase in our cellular service areas. In addition, ARPU for the cellular communications market in China continues to decline. For example, ARPU of our GSM subscribers declined from RMB56.7 in 2003 to RMB49.4 in 2004. Any slow-down in the growth in China s telecommunications sector may adversely affect the growth and profitability of our business.

The Chinese government may require us, along with other telecommunication service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the Chinese government, and the MII has the authority to delineate the scope of universal service obligations. The MII may also select universal service providers through a tendering process. The MII, together with government finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services.

While the scope of specific universal services obligations is not yet clear, we believe that such services may include mandatory provision of basic telecommunications services in less economically developed areas in China and mandatory contribution to a universal service fund. In addition, as part of the transitional measures prior to the formalization of a universal service obligation framework, the MII has recently required major telecommunication service providers in China, including Unicom Group, to participate in a project to provide telephone services in a number of remote villages in China. However, it is currently uncertain as to whether we will be required by the MII to maintain and expand network facilities and provide telephone services as part of such transitional measures. Furthermore, to the extent we are required to do so, it is currently uncertain whether we will be adequately compensated by the government or be able to realize an adequate return on investments for expanding networks to, and providing telecommunications services in, those less economically developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. We also cannot predict whether we will be required to make contribution to the universal service fund. Either of these events may adversely affect our financial condition and and results of operations.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers, reduce cellular service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, cellular operators have been subject to lawsuits alleging various health consequences as a result of cellular handset usage or proximity to base stations or seeking protective or remedial measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with the transmission of electromagnetic signals will not impair our ability to retain customers and attract new customers, reduce cellular service usage or result in litigation.

Risks Relating to China

If the Chinese government revises the current regulations that allow a foreign investment enterprise to pay foreign exchange in current account transactions, our subsidiaries ability to satisfy their foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted.

The ability of our wholly-owned operating subsidiaries, CUCL and Unicom New World, to satisfy their foreign exchange obligations and to pay dividends to us depends on existing and future foreign exchange regulations in China. The Renminbi is currently convertible by foreign investment enterprises in China to settle transactions under the current account, which include trade and service related foreign exchange transactions and payments of dividends and interest on foreign loans. Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which include outbound foreign investment and principal payments on foreign loans. CUCL and Unicom New World, which hold substantially all of our assets and through which we conduct substantially all of our business, are foreign investment enterprises in China. This status allows them to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration for Foreign Exchange. However, the relevant Chinese government authorities may in the future impose limitation on the ability of foreign investment enterprises to purchase foreign exchange to satisfy their foreign exchange obligations or to pay dividends in the future. In that event, our subsidiaries ability to satisfy their foreign exchange obligations and to pay dividends to us in foreign currencies may be restricted.

Uncertainties in the Chinese legal system could limit the legal protections available to us and to foreign investors.

Our wholly-owned operating subsidiaries, CUCL and Unicom New World, are organized under the laws of China and are generally subject to laws and regulations applicable to foreign investment enterprises in China. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have limited precedential value. Since 1979, the Chinese government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and/or enforcement of these laws and regulations involves uncertainties. Therefore, the Chinese legal system may not afford the same legal protection available to investors in the United States or elsewhere.

Item 4. Information on the Company

A. History and Development of the Company

Industry Restructuring and Grant of New Licenses

Since 1993, the Chinese government has implemented a number of measures to restructure and introduce competition in the telecommunications industry. Prior to June 1994, China Telecom was the sole provider of telecommunications services in China. In June 1994, Unicom Group was established in accordance with the State Council s approval to introduce competition in the telecommunications industry. Since then, the Chinese government has approved Jitong Network Communications Company Limited, or Jitong, and China Netcom Corporation Ltd., or CNCL, to provide IP telephony, Internet and data services. It has also approved China Railcom to provide most telecommunications services other than cellular services.

In 1999, the State Council approved a plan to restructure the former China Telecom along four business lines: fixed line, cellular, paging and satellite communications. As a result of the restructuring, China Telecom retained the fixed line, data and Internet businesses, while China Mobile assumed the cellular business previously operated by China Telecom. In 2002, the Chinese government further separated China Telecom into two companies, with the southern company retaining the name of China Telecom and assets and businesses in 21 provinces in southern and western China and the northern company retaining assets and businesses in 10 provinces in northern China and merging with CNCL and Jitong to form China Netcom. As a result of the Chinese government s efforts to introduce competition in the telecommunications industry, there is currently more than one service provider in most of the sectors within the telecommunications industry. See B. Business Overview – Competition below.

History of Unicom Group

As part of its efforts to introduce orderly competition to the telecommunications sector in China, the State Council approved the establishment of Unicom Group in December 1993 and authorized it to build and operate cellular networks and local and long distance networks. Unicom Group first developed a nationwide cellular network using GSM technology and a nationwide long distance telephony network.

In May 1997, the State Council granted approval to Unicom Group to provide data services. The MII licensed Unicom Group to begin to provide Internet services in July 1999 and IP telephony services on a trial basis in 12 cities in April 1999 and on a nationwide basis in March 2000. Unicom Group also offers local telephony services in the municipalities of Chengdu, Chongqing and Tianjin. It offers satellite transmission services through its subsidiary, China United Telecommunications Satellite Communication Co. Ltd., or Unisat.

The Restructuring of Unicom Group and Our Initial Public Offering in 2000

We are a company limited by shares incorporated under the Companies Ordinance of Hong Kong on February 8, 2000. Our registered office and principle executive offices are located at 75th Floor, The Center, 99 Queen s Road Central, Hong Kong (telephone number: 852-2126-2018).

Under a reorganization agreement, dated April 21, 2000, between Unicom Group and CUCL, Unicom Group transferred to CUCL certain of its assets, rights and liabilities in preparation for our initial public offering, or IPO.

Under an equity transfer agreement, dated April 21, 2000, among us, Unicom Group, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited, or Unicom BVI, Unicom Group transferred to us its 100% equity interest in CUCL, which became our wholly-owned operating subsidiary in China. In return, we issued 9,725 million shares to Unicom BVI, then an indirect wholly-owned subsidiary of Unicom Group.

In June 2000, we successfully completed our IPO, raising approximately US$5.65 billion. Upon completion of our IPO, our shares became listed and traded on the Hong Kong Stock Exchange and ADSs representing our shares became listed and traded on the New York Stock Exchange.

Further Restructuring of Unicom Group and Initial Public Offering of the A Share Company in 2002

After our IPO, Unicom BVI, which was a wholly-owned subsidiary of China Unicom (Hong Kong) Group Limited, or Unicom HK, a wholly-owned subsidiary of Unicom Group, directly held 77.47% of our outstanding shares. In October 2002, Unicom Group completed an internal restructuring of its shareholding in our company. Unicom HK transferred the total issued capital of Unicom BVI held by it to Unicom Group and Unicom BVI became a direct wholly-owned subsidiary of Unicom Group. Unicom Group then transferred 51% of its equity interest in Unicom BVI to the A Share Company, a newly established holding company and subsidiary of Unicom Group. The A Share Company s business is limited to indirectly holding the equity interest of our company without any other direct business operations.

Following the restructuring, Unicom Group successfully completed the IPO of the A Shares of the A Share Company in mainland China and the listing of the A Shares on the Shanghai Stock Exchange. After the IPO of the A Share Company, the A Share Company transferred all of its net offering proceeds to Unicom Group in return for an additional 22.84% equity interest in Unicom BVI. As of May 31, 2005, Unicom Group holds a 69.32% equity interest in the A Share Company. The A Share Company in turn holds 82.09% of the total equity interest in Unicom BVI, with the remaining 17.91% held directly by Unicom Group. Unicom BVI continues to hold 77.37% of our outstanding shares and Unicom Group remains our ultimate controlling shareholder. See also the chart on page 19 below for the current shareholding structure of our company.

In accordance with the articles of association of the A Share Company and Unicom BVI, before Unicom BVI votes on a certain proposal at our shareholders meeting, the A Share Company must first convene its shareholders meeting to consider the same proposal and has the right to direct Unicom BVI to vote the shares in our company indirectly held by the A Share Company through Unicom BVI. Unicom Group can similarly direct the voting in respect of its direct equity interest in Unicom BVI. This mechanism for voting is designed to allow public shareholders of the A Share Company to indirectly participate in our shareholders meeting.

The voting mechanism described above, however, will not apply to the approval process for any connected transactions between us or our subsidiaries and Unicom Group or its subsidiaries, on which Unicom BVI will not be permitted to vote under the Listing Rules of the Hong Kong Stock Exchange. Instead, our significant connected transactions would require the separate approvals of the public shareholders both of our company and of the A Share Company. According to the two-step voting arrangements we and the A Share Company have established, each connected transaction between us or our subsidiaries and Unicom Group or its subsidiaries will consist of an initial agreement and a further agreement. The initial agreement would be entered into by Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) on the one hand and the A Share Company or Unicom BVI on the other hand. This agreement would contain the following terms:

the closing of the initial agreement would be subject to the (i) successful transfer of all rights and obligations of the A Share Company or Unicom BVI under the initial agreement to us or our subsidiaries, and (ii) the approval of the further agreement by our independent shareholders, and

Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) would agree and acknowledge that all rights and obligations under the initial agreement can be transferred to us or our subsidiaries without any further consent requirements.

The initial agreement will constitute a connected transaction of the A Share Company and, if certain thresholds are met, will require the approval of the public or independent shareholders of the A Share Company under the rules of the Shanghai Stock Exchange. The further agreement would be entered into by the A Share Company or Unicom BVI on the one hand and us or our subsidiaries on the other hand, and would provide for the transfer of all rights and obligations of the A Share Company or Unicom BVI on the one hand under the initial agreement to us or our subsidiaries on the other hand. The further agreement will constitute a connected transaction of our company and, if certain thresholds are met, will require the approval of our public or independent shareholders under the Listing Rules of the Hong Kong Stock Exchange. We expect, to the extent the nature of a particular connected transaction allows, the two-step voting arrangements to apply as described above. However, there may be circumstances where the nature of the connected transaction requires the application of the two-step voting arrangements to be adjusted. This may arise where we or our subsidiaries are the providers, rather than recipients, of certain services. In this event, the two-step voting arrangements will need to be adjusted so that the process as described above is effectively reversed, such that the initial agreement is entered into by us or our subsidiaries rather than Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries) with the A Share Company or Unicom BVI. Unicom Group or its subsidiaries (excluding the A Share Company and its subsidiaries), rather than us or our subsidiaries, will be party to the further agreement. The arrangements (including the conditions) will apply correspondingly. This two-step structure will be used in all future connected transactions between us and Unicom Group and will effectively require the separate approvals of the public or independent shareholders both of our company and of the A Share Company for such connected transactions.

Restructuring and Acquisition of Unicom New Century

On December 31, 2002, in accordance with the two-step approach outlined above, we successfully completed the acquisition from Unicom Group of Unicom New Century, which holds cellular telecommunications businesses (including GSM assets and businesses and CDMA businesses) in the following nine provinces, autonomous regions and municipalities in China: Jilin, Heilongjiang, Jiangxi, Henan, Shaanxi and Sichuan provinces, Guangxi Zhuang Autonomous Region, Xinjiang Uygur Autonomous Region and Chongqing municipality. The total purchase price was HK$4,523,181,304 (approximately RMB4.8 billion), payable in cash.

Acquisition of Unicom New World and the Sale of Guoxin Paging

On December 31, 2003, we successfully completed the acquisition from Unicom Group of Unicom New World, which holds cellular telecommunications businesses (including GSM assets and businesses and CDMA businesses) in the following nine provinces and autonomous regions in China: Shanxi, Hunan, Hainan, Yunnan, Gansu and Qinghai provinces and Inner Mongolia, Ningxia Hui and Tibet autonomous regions. The total purchase price was HK$3,014,886,000 (approximately RMB3.2 billion), payable in cash. On the same date, we also completed the sale of the entire equity interests of Guoxin Paging to Unicom Group for a total sale price of HK$2,590,917,656 (approximately RMB2.75 billion), and such proceeds were applied to our general working capital. Both the acquisition of Unicom New World and the sale of Guoxin Paging were completed in accordance with the two-step approach outlined above.

Merger between CUCL and Unicom New Century

On July 30, 2004, Unicom New Century was merged into CUCL and legally dissolved upon the completion of such merger. As a result, CUCL extended its cellular businesses to 21 provinces, autonomous regions and municipalities in China.

Acquisition of China Unicom International Limited

In September 2004, we acquired from Unicom Group of Unicom International, a limited liability company established in Hong Kong engaging in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services. Unicom s wholly-owned US subsidiary, China Unicom USA Corporation, or Unicom USA, carries wholesale business of voice traffic between the United States and mainland China. The total purchase price was HK$37,465,996 (approximately RMB39.74 million), payable in cash.

Establishment of China Unicom (Macau) Company Limited

On October 15, 2004, we set up China Unicom (Macau) Company Limited, or Unicom Macau, in Macau Special Administrative Region of the PRC, or Macau. In March 2005, the Macau government granted Unicom Macau a CDMA license, which will allow Unicom Macau to provide roaming services to our CDMA subscribers as well as CDMA users of other service providers who visit Macau during the first year of its operation. After the first year of its operation, Unicom Macau will be eligible to provide cellular services to local residents upon receiving approval from local telecommunications regulatory authority.

Set forth below is our shareholding structure and subsidiaries as of December 31, 2004.

Our Relationship with Unicom Group

Unicom Group continues to own and manage the international gateways that provide international connections to our long distance network. Unicom Group also continues to operate the following telecommunications networks:

- its cellular networks in Guizhou province,
- its local telephony networks in Chengdu, Chongqing and Tianjin municipalities,
- the satellite transmission networks operated through Unisat, and
- the paging networks operated through Unicom Paging and Guoxin Paging.

Unicom Group holds the licenses required for our telecommunications businesses and we derive our rights to operate our businesses from our status as a majority owned subsidiary of Unicom Group. Under the respective reorganization agreements entered into by CUCL, Unicom New Century and Unicom New World with Unicom Group referred to above, Unicom Group undertook to hold and maintain all licenses received from the MII in connection with our businesses solely for our benefit during the term of the licenses and at no cost to us. In addition, Unicom Group undertook to take all actions necessary to obtain and maintain for our benefit such governmental licenses or approvals as we shall require to continue to operate our businesses. Unicom Group also agreed not to engage in any business which competes with our businesses except for the then-existing competing businesses of Unicom Group and to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service. Finally, Unicom Group also gave us an undertaking not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future, except through us.

In connection with the restructuring of Unicom Group and the acquisitions of Unicom New Century, Unicom New World and Unicom International, we entered into a number of agreements with Unicom Group pursuant to the two-step process described in Further Restructuring of Unicom Group and the Initial Public Offering of A Shares above. These include arrangements for interconnection and roaming services between the telecommunications networks owned by us and Unicom Group and for the provision or sharing of telecommunications and ancillary services and facilities between us and Unicom Group. Unicom Group also retains its interests in its other subsidiaries that provide ancillary services to us, including the procurement of telecommunications equipment and the supply of SIM cards and calling cards. In March 2005, we entered into several new agreements with Unicom Group to replace the existing arrangements. See B. Related Party Transactions under Item 7.

Unicom Group has constructed nationwide cellular networks based on CDMA technology. The first phase of the construction was completed at the end of 2001. We entered into lease agreements with Unicom Group to lease a portion of the network capacity and began to offer CDMA cellular services on an exclusive basis in our cellular service areas in early 2002. In 2003, Unicom Group completed the second phase of the CDMA network construction, which included the upgrade of the network to CDMA 1X technology. Wireless data services that utilize CDMA 1X technology have been introduced throughout our service areas. In 2004, Unicom Group substantially completed the construction of the third phase of the CDMA network, which increased the total network capacity to approximately 72 million subscribers. In March 2005, we entered into a new CDMA lease agreement with Unicom Group to replace the then existing CDMA lease agreement. Unicom Group operates its CDMA networks outside of our cellular service areas, in Guizhou province. We also have an option to acquire the CDMA networks from Unicom Group. See B. Related Party Transactions – Leasing of CDMA Network Capacity under Item 7.

Capital Expenditures and Divestitures

See Liquidity and Capital Resources – Capital Expenditures under Item 5 for information concerning our principal capital expenditures for the previous three years and those planned for 2005. We have not undertaken any significant divestitures.

B. Business Overview

General

We are an integrated telecommunications operator in China, offering a wide range of telecommunications services, including cellular, international and domestic long distance, data and Internet services based on our advanced, uniform nationwide network system.

Prior to the acquisition of Unicom New World on December 31, 2003, we offered cellular communications services based on both GSM and CDMA technologies in 21 provinces, autonomous regions and municipalities in China. After the acquisition of Unicom New World, our cellular service area encompassed a total of 30 provinces, autonomous regions and municipalities (i.e., all provinces, autonomous regions and municipalities in China except for Guizhou province). See A. History and Development of the Company Acquisition of Unicom New World and the Sale of Guoxin Paging above under this Item 4. As a result, our operating results for the year ended December 31, 2004, which include the operating results of Unicom New World, are not necessarily comparable to our operating results for the year ended December 31, 2003, which does not include the operating results of Unicom New World.

We and China Mobile are the two cellular service providers in our cellular service areas. We had a total of 84.27 million GSM cellular subscribers in our cellular service areas at the end of 2004, representing a 31.8% increase from 63.92 million subscribers at the end of 2003. Our GSM cellular business is our largest business, which accounted for 59.8% of our total operating revenue in the year ended December 31, 2004. We had approximately 27.81 million CDMA cellular subscribers in our cellular service areas as of December 31, 2004, representing a 64.5% increase from 16.91 million subscribers as of December 31, 2003. At the end of 2004, our market share was 35.6% in our cellular service areas, relatively stable compared to the market share at the end of 2003.

We provide traditional public switched and IP telephony international and domestic long distance, data and Internet services nationwide in China. All of these services were launched in 2000, with the exception of our IP telephony long distance service, which was launched in 1999. These businesses currently represent a relatively small portion of our overall business, but are growing in absolute terms. Our long distance, data and Internet businesses accounted for 6.9% of our total operating revenue in 2004, compared to 8.4% in 2003.

Outgoing public switched and IP telephony long distance calls totaled 10.10 billion and 13.95 billion minutes, respectively, in 2004, compared to 8.44 billion and 11.39 billion minutes, respectively, in 2003. Our market share slightly decreased from approximately 14.0% in 2003 to 12.7% in terms of total outgoing long distance call minutes in 2004. Our incoming international long distance calls (including incoming calls from Hong Kong, Macau and Taiwan) totaled 2.75 billion minutes in 2004, up from 1.91 billion minutes in 2003.

Our data and Internet business maintained steady growth in 2004. Our broadband data and Internet services currently cover over 300 cities nationwide. As of December 31, 2004, the bandwidth of our data network, international interconnection bandwidth and domestic interconnection bandwidth had reached 136Gbps, 3.34Gbps and 14.88Gbps, respectively. Our Internet subscribers grew to 13.63 million by the end of 2004 from 12.43 million in 2003.

Our fiber optic transmission network continued to expand in 2004. As of December 31, 2004, the total cable length of our transmission network reached 712,000 km, including 120,000 km for our backbone transmission network, representing an increase of 25.0% and 4.7%, respectively, from the end of 2003.

Recent Developments

As of March 31, 2005, the total number of our GSM subscribers in all of our cellular service areas has increased to 86.98 million, including 44.05 million post-paid subscribers and 42.93 million pre-paid subscribers. As of March 31, 2005, we also had a total of 29.43 million subscribers to our CDMA services. Average minutes of usage, or MOU, per subscriber per month for GSM services in our combined service areas were 186.5 minutes for the three months ended March 31, 2005. Average MOU per subscriber per month for CDMA services in combined service areas were 275.5 minutes for the three months ended March 31, 2005. ARPU for GSM services in our combined service areas was RMB46.9 for the three months ended March 31, 2005. ARPU for CDMA services in our combined service areas was RMB77.5 for the three months ended March 31, 2005.

For the three months ended March 31, 2005, outgoing public switched long distance calls totaled 2.63 billion minutes, including 2.59 billion minutes of domestic long distance calls and 0.04 billion minutes of international long distance calls (including calls to Hong Kong, Macau and Taiwan). Outgoing IP telephony long distance calls totaled 3.51 billion minutes for the first three months of 2005, including 3.48 billion minutes of domestic long distance calls and 0.03 billion minutes of international long distance calls (including calls to Hong Kong, Macau and Taiwan). As of March 31, 2005, our Internet subscribers reached 10.03 million.

Cellular Services

Our cellular business is our largest business, with our GSM and CDMA businesses together having contributed 93.0% of our total operating revenue in 2004. We offer cellular services in 30 provinces, autonomous regions and municipalities in China.

We offer both GSM and CDMA cellular services in our service areas. We began to offer GSM cellular services in 1995 and currently a majority of our existing cellular users subscribe to our GSM cellular services. We began to offer CDMA cellular services in 2002. In 2003, we introduced wireless data services that utilize CDMA 1X technology. We also offer GSM international roaming services in conjunction with 211 operators in 101 countries and regions and CDMA international roaming services in conjunction with 15 operators in 12 countries and regions. In August 2004, we launched dual mode cellular service under the brand name Worldwind, leveraging our existing GSM and CDMA networks to achieve seamless roaming worldwide.

We also offer short message services, or SMS, and a number of other value-added services to our cellular subscribers, including CDMA 1X wireless data services and GSM wireless data services, under the integrated service brand of uni and sub-brands of uni-Info , uni-Mail , uni-Magic , uni-Map , uni-Wap and Uni-Web , and U-Net , which represents various wireless internet access services for laptop or mobile hand

In 2004, our market share in our cellular service areas grew slightly, from 34.6% in 2003 to 35.6% in 2004.

GSM Cellular Services

We centrally plan and oversee our provincial GSM cellular businesses, which are operated by provincial branches of our operating subsidiaries, CUCL and Unicom New World. We centrally manage the key aspects of network construction such as network planning and design and selection of major equipment. We also centrally devise the overall business strategies to be carried out by the provincial operating branches.

Our GSM cellular networks reach all cities, county centers, major towns, major highways and railways in our cellular service areas. We continue to selectively deploy GSM systems that operate in the 1800 MHz frequency band in high-density population and high call volume centers to supplement our GSM networks operating in the 900 MHz frequency band. In 2004, we focused on optimizing the operational efficiency and stability of our GSM networks, and will continue to manage our GSM networks to support the development of our various cellular services.

Post-paid Services and Pre-paid Services

We offer two main categories of GSM cellular services: post-paid and pre-paid services that target different consumer segments. Generally, we promote our pre-paid services to migrant population and temporary residents as well as lower-usage subscribers and target our post-paid services at long-term residents in our GSM cellular service areas.

To subscribe for our post-paid services, a customer generally needs to produce proof of local residency or a guarantee from a local resident and sign a service contract. A post-paid subscriber pays a monthly fee and per-minute usage and roaming charges. In many of our cellular service areas, we require most post-paid subscribers to pay a deposit directly to us or to give a direct debit authorization to one of the commercial banks that collect service charges for us.

To subscribe for our pre-paid services, a customer simply purchases a SIM card with a pre-paid amount of service charges. The customer can add to the pre-paid balance by purchasing rechargeable cards. A customer of pre-paid services does not need to register with us. In addition, pre-paid services do not have monthly fees, but carry higher per-minute usage and roaming charges. This fee structure is generally more attractive to lower-usage subscribers.

We market pre-paid services under the service brand of Ruyi Tong . These services are generally supported by intelligent networks built by us. The intelligent networks enable us to offer nationwide roaming services and monitor in real time the account balance of pre-paid subscribers. We also offer pre-paid services in some service areas that are based on the local billing systems and use local service brands.

Subscribers and Usage

The following table sets forth selected historical information about our GSM cellular operations and our subscriber base for the periods indicated.

	CUCL and Unicom New Century only, as of or for the year ended December 31,		Unicom New World only, as of or for the year ended December 31,	CUCL(5) and Unicom New World, as of or for the year ended December 31	CUCL(5) and Unicom New World, as of or for the three months ended March 31,
	2002	2003	2003	2004	2005
Number of subscribers (in thousands)	53,465	63,923	8,647	84,267	86,982
Post-paid	29,718	32,458	7,105	42,844	44,048
Pre-paid	23,747	31,465	1,542	41,423	42,934
Estimated market share in our service areas(1)	29.8%	27.4%	27.1%	26.8%	26.2%
Average churn rate(2)	15.5%	29.1%	46.9%	27.6%	6.5%
Average minutes of usage per subscriber per month(3)	165.49	173.70	204.55	188.9	186.5
Average revenue per subscriber per month (in RMB)(4)	67.34	56.74	58.34	49.4	46.9
SMS Volume (in billions)	8.495	25.034	2.959	32.39	8.72

(1) Market share in a given area is determined by dividing the number of our GSM subscribers in the area by the total number of cellular subscribers in the area. *Source*: Ministry of Information Industry.

(2) Average churn rate is the rate of subscriber disconnections from our GSM cellular network, which we have determined by dividing the sum of voluntary and involuntary deactivations during the period by the average of the number of our GSM subscribers during the period.

(3) Average minutes of usage per subscriber per month is calculated by dividing the total minutes of usage during the period by the average of the number of our GSM subscribers during the period, and dividing the result by the number of months in the relevant period.

(4) Average revenue per subscriber per month, or ARPU, is calculated by dividing the sum of GSM cellular services revenue during the relevant period by the average of the number of our GSM subscribers during the period, and dividing the result by the number of months in the period.

(5) Includes Unicom New Century, which merged into CUCL on July 30, 2004.

Subscriber Increase: Our subscriber count continued to grow rapidly. As of December 31, 2004, the total number of GSM subscribers in our cellular service areas increased to 84.27 million, including 42.84 million post-paid subscribers and 41.42 million pre-paid subscribers. Our share of the cellular market in terms of total cellular subscribers in our GSM cellular service areas was 26.8% as of December 31, 2004. We attracted 35.5% of the net cellular subscriber additions in those service areas during 2004. We believe that this growth was attributable to a number of factors, including, among others, (i) continued growth of the Chinese cellular telecommunications market, driven by economic growth and reduction in the cost of cellular handsets and services, (ii) relatively flexible marketing, sales and distribution, (iii) relatively competitive pricing of our services and (iv) our continuing focus on customer service.

Pre-paid Subscribers: The rate of increase in our pre-paid subscribers has generally exceeded the rate of increase in our post-paid subscribers in recently years. As of December 31, 2004, we had 41.42 million pre-paid subscribers in our cellular service areas, representing 49.2% of our total subscriber base, the same percentage as at the end of 2003. Pre-paid subscribers represented 71.9% of our net subscriber additions in our cellular service areas during 2004.

MOU and ARPU: Our total minutes of usage, or MOU, and average revenue per subscriber per month, or ARPU, were 178.16 billion minutes and RMB49.4, respectively, in 2004. The average MOU per subscriber per month was 188.9 minutes in 2004, an increase of 15.2 minutes from 173.7 minutes in 2003. The increase in MOU was attributable to increased tariff competition with our competitor, which resulted in the provision of more free minutes to subscribers. The decreasing tariffs as a result of such competition also encouraged higher usage among subscribers. Our ARPU continued to decline from RMB56.7 in 2003 to RMB49.4 in 2004. The decline in ARPU was attributable to intensified market competition and regional promotional activities that led to a decline in effective tariffs. Our pre-paid subscribers in general have lower MOUs and ARPUs compared to our post-paid subscribers. For the year ended December 31, 2004, the average MOU per subscriber per month and ARPU were 125.3 minutes and RMB40.0 respectively, for our pre-paid subscribers, compared to 247.5 minutes and RMB58.1, respectively, for our post-paid subscribers.

Churn Rate: For the year ended December 31, 2004, the churn rate for GSM services in our cellular service areas decreased from 29.1% in 2003 to 27.6% as a result of our emphasis on customer retention. Our calculation of churn rate reflects those subscribers who switch to services of other operators and those whose services we disconnect as a result of account inactivity or payment delinquency.

The Chinese government eliminated connection fees in 2001 and, as competition continues to intensify, our churn rate from subscribers voluntarily discontinuing our services may increase in the future. The churn rate for our pre-paid services is generally higher than that for our post-paid services because of the migrant and temporary nature of most pre-paid subscribers. It is also difficult for us to develop and maintain customer relationships with pre-paid subscribers from whom we do not require registration.

Payment Delinquency: Payment delinquency stabilized in 2004. As of December 31, 2004, the doubtful debt ratio for GSM cellular services in our cellular service areas, calculated as the amount of provision for doubtful debt divided by revenue from GSM cellular services, is 2.8%, same as the ratio at the end of 2003 for CUCL and Unicom New Century. In some of our cellular service areas we require our post-paid subscribers to deposit service charges and maintain a certain level of account balances with us or with commercial banks that collect service fees for us. We classify the creditworthiness of our subscribers into various levels and have adopted other credit control measures. We also closely manage payment delinquencies through confirmation of customer address and other registration information, expansion of collection channels, advance notification of inadequate deposits, close monitoring of call patterns and account balances and prompt termination of services.

Tariffs

Generally we charge our post-paid cellular subscribers the following categories of tariffs: basic monthly fees, usage charges for both incoming and outgoing calls, roaming charges, long-distance call charges and charges for value-added services. Pre-paid subscribers do not pay monthly fees but pay higher per-minute usage and roaming charges.

The cellular tariffs are subject to regulation by various government authorities, including the MII, the National Development and Reform Commission and provincial price regulatory authorities. The following table summarizes the present State guidance tariff rates for post-paid and pre-paid cellular services:

	Post-paid Services	Pre-paid Services
	RMB	RMB
Basic monthly fee	50	0
Basic usage charge (per minute)	0.4	0.6
Domestic roaming charge (per minute)	0.6	0.8

Source: MII.

Intense competition in our cellular service areas has resulted in tariff discounts and service promotions offered by both us and our main competitor from time to time, which may lower effective tariffs. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, off-peak discounts or discounts for high-usage subscribers and package service plans with fixed monthly fees. While various features of our package service plans are coordinated on a nationwide basis, the tariff structure of the various plans are determined by us based on the local competitive environment. See D. Risk Factors Risks Relating to the Overall Telecommunications Industry in China regulatory or policy changes relating to telecommunications industry may adversely affect our results of operations, financial condition and business prospects under Item 3.

We have introduced a number of package service plans in our cellular service areas. Under these plans, subscribers pay a fixed monthly fee for a specified number of call minutes. The plans vary in the level of the fixed monthly fee, the number of specified call minutes and the tariff rates for call minutes in excess of the specified call minutes. The terms of these plans also vary depending on the local markets and generally offer some price discounts to similar plans of our main competitor. We have also introduced in selected cities promotional plans for certain qualified subscribers, which allow such subscribers to receive incoming calls without incurring per-minute usage charges in exchange for a fixed monthly fee.

In 1997, the Chinese government granted us preferential treatment by allowing us to reduce our tariffs by up to 10% below the State guidance tariff rates. In the past, this preferential treatment has helped us capture a significant number of cellular subscribers by allowing us to market our cellular services at discounted rates. As we and our main competitor, introduced various package service plans and other promotional programs, the tariff structure has become more complex. While we continue to maintain tariff levels that are generally lower than those of our main competitor, the more complex tariff structure has, to some extent, made our price advantages less obvious to subscribers compared to previous tariff schemes that were largely based on simple per-minute charges. In 2004, as we continued to offer package service plans in our service areas, we have significantly reduced the variety of such plans and stopped offering service plans that were not profitable.

CDMA Cellular Services

Our controlling shareholder, Unicom Group, currently has the exclusive license to offer CDMA cellular services in China. It has constructed CDMA networks nationwide through its wholly-owned subsidiary Unicom Horizon. We have leased capacity on the network and operate the CDMA network in our cellular service areas. After a trial period of three months, we formally launched our CDMA services in April 2002. In 2003, Unicom Group completed the second phase of the CDMA network construction, which included the upgrade of the network to CDMA 1X technology, and we introduced wireless data services that utilize CDMA 1X technology. In August 2003, we introduced pre-paid CDMA services. In 2004, Unicom Group substantially completed the third phase of the CDMA network construction. In August 2004, we launched the Worldwind CDMA and GSM dual-mode handset cellular services.

Unicom Group s Construction of CDMA Networks

In May 2001, Unicom Group began to build CDMA networks nationwide. The networks are expected to be expanded in phases. The number and size of each phase will depend upon actual and forecast CDMA subscriber growth and anticipated capacity requirements. In the first phase of the construction, which was completed by the end of 2001, the networks achieved a nationwide coverage of approximately 330 cities in China, with a total capacity of 15.81 million subscribers. The portion of this network within our cellular service areas has a total capacity of approximately 15.62 million subscribers.

Through a competitive bidding process, Unicom Group was able to obtain highly attractive terms for its CDMA equipment supply contracts. The construction of the first phase of its CDMA networks utilized to a significant extent the existing GSM infrastructure, such as base stations and related equipments, switching centers and related equipments, transmission capacity and relevant equipments.

In 2003, Unicom Group completed the second phase of the CDMA network construction, which included the upgrade of the network to CDMA 1X technology. The second phase of the construction also added capacity for 20.69 million additional subscribers, bringing the total capacity of the nationwide CDMA networks to approximately 36.50 million subscribers. The portion of the CDMA networks within our cellular service areas has a capacity of approximately 20.38 million subscribers. In addition, the second phase of the construction focused on improving the breadth and depth of network coverage, by deepening coverage to the level of almost all of the county-level towns and cities and increasing indoor coverage.

In 2004, Unicom Group substantially completed the third phase of the CDMA network construction, which increased the total CDMA network capacity to approximately 72.74 million subscribers, with approximately 71.81 million of capacity within our service areas. Such level of capacity improved our CDMA nationwide network coverage and telecommunications quality, including both outdoor and indoor coverage, as well as the data-processing capacity of our CDMA 1X services. After the substantial completion of the third phase of network construction, Unicom Group has built a CDMA network with relatively comprehensive nationwide coverage.

Our Lease of CDMA Networks from Unicom Group

Our wholly-owned operating subsidiary, CUCL, entered into a lease agreement with Unicom Group and its subsidiary Unicom Horizon, dated November 22, 2001, which sets forth the principal terms of the network capacity leasing arrangement between us and Unicom Group. Unicom New Century and Unicom New World have also entered into lease agreements, dated November 20, 2002 and November 20, 2003, respectively, with Unicom Group and Unicom Horizon on similar terms and conditions. We entered into a new, consolidated lease agreement, or the New CDMA Lease, with Unicom Group and Unicom Horizon on March 24, 2005 to replace the three lease agreements, or the Old CDMA Leases, entered into in the past individually by CUCL, Unicom New Century and Unicom New World. We lease network capacity from Unicom Group and operate these CDMA networks in our cellular service areas on an exclusive basis and receive all revenue generated from the operation. We may terminate the lease arrangements upon giving at least six months prior notice to Unicom Group.

Under the Old CDMA Leases, the term of each lease was for an initial period of one year and could be renewed for further one-year terms at our option. We leased network capacity in our cellular service areas on a quarterly basis during the first year and, thereafter, would lease network capacity on an annual basis, with the ability to request to adjust lease capacity pursuant to the Old CDMA Leases. See B. Related Party Transactions – Leasing of CDMA Network Capacity under Item 7. We have leased capacity for 31 million subscribers in our cellular service areas in 2004.

Under the OLD CDMA Leases, we were required to make quarterly lease payments to Unicom Group for the actual amount of network capacity we leased. The lease fee was charged on a per line basis and determined so as to enable Unicom Group to recover its total investment in constructing the network in seven years together with a rate of return on its investment of 8%. To the extent that we had not leased the full capacity of the CDMA network in the particular period, we did not have to compensate Unicom Group for unused capacities not leased by us. The quarterly lease fee for the first two phases of the CDMA network in our cellular service areas was RMB56.4 and RMB61.5 per subscriber line leased in 2004, respectively.

The New CDMA Lease has an initial term of two years commencing from January 1, 2005, during which (i) the lease fee for the first year will be 29% of the audited service revenue generated by our CDMA cellular business and (ii) the lease fee for the second year will be 30% of the audited service revenue generated by our CDMA business. We lease all constructed network capacity from Unicom Group under the New CDMA Lease. The term of the New CDMA Lease may be renewed at our option, with the length of the renewed term to be agreed upon.

In addition to leasing network capacity, we also have the option, exercisable at any time during the lease period and for an additional year thereafter, to purchase the CDMA network in our cellular service areas. The acquisition price will be negotiated between Unicom Horizon and us. It will be based on the appraisal value of the CDMA network determined in accordance with applicable PRC laws and regulations and take into account the then prevailing market conditions and other factors. However, the purchase price will not exceed an amount which will, taking into account all lease fee payments made by us to Unicom Horizon and lease fee discounts as a result of delay of delivery, enable Unicom Horizon to recover its total network construction costs, together with an internal rate of return of 8%. The exercise of the purchase option will be subject to the relevant laws, regulations and listing rules in Hong Kong and the PRC, particularly those governing connected transactions, including approvals of our minority shareholders. See B. Related Party Transactions Leasing of CDMA Network Capacity under Item 7 for a more detailed description of the New CDMA Lease.

Services

The CDMA services we offer in our cellular service areas include basic voice and value added services such as call forwarding and voicemail, caller identity display, SMS services and CDMA 1X data services. In addition to post-paid CDMA services, we offer pre-paid CDMA services under the service brand of Ruyi133 in our cellular service areas. The features of our pre-paid and post-paid CDMA services are similar to pre-paid and post-paid GSM services. See B. Business Overview Cellular Services GSM Cellular Services Post-paid Services and Pre-paid Services under this Item 4. We have begun operations of the CDMA 1X networks in all of the cities in our cellular service areas.

In August 2004, we launched CDMA and GSM dual-mode cellular services under the brand name Worldwind , leveraging our existing GSM and CDMA networks to achieve seamless roaming worldwide. As of December 31, 2004, we sold approximately 200,000 Worldwind dual-mode handsets and had approximately 160,000 subscribers of the dual-mode cellular services. Worldwind services, which are available to our subscribers who use either a dual-mode handset or a dual-mode user card, have the following features:

Users can switch between our GSM and CDMA networks in China, thereby offering wireless coverage in areas of the country covered by any one of these networks;

When roaming in areas outside of China, users can use the cellular services of local operators, whether they are GSM or CDMA, who signed roaming agreements with us; and

Our GSM users who sign up for Worldwind can continue to use the basic GSM services, while enjoying the additional benefits of the CDMA 1X services.

Subscriber Base

The following table sets forth selected historical information about our CDMA cellular operations and our subscriber base for the periods indicated.

	CUCL and Unicom New Century only, as of or for the year ended December 31,		Unicom New World only, as of or for the year ended December 31,	CUCL(5) and Unicom New World, as of or for the year ended December 31,	CUCL(5) and Unicom New World, as of or for the three months ended March 31,
	2002	2003	2003	2004	2005
Number of subscribers (in thousands)	6,245	16,910	2,036	27,814	29,432
Post-paid	6,245	16,046	1,934	25,824	27,227
Pre-paid		864	102	1,991	2,205
Estimated market share in our service areas[(1)]	3.5%	7.2%	6.4%	8.8%	8.9%
Average churn rate[(2)]	0.8%	11.5%	25.9%	17.9%	4.1%
Average minutes of usage per subscriber per month[(3)]	328.1	337.5	335.4	292.3	275.5
Average revenue per subscriber per month (in RMB)[(4)]	172.2	128.4	123.4	85.3	77.5
SMS Volume (in billions)	0.516	6.231	0.623	11.83	3.41

(1) Market share in a given area is determined by dividing the number of our CDMA subscribers in the area by the total number of cellular subscribers in the area. *Source*: Ministry of Information Industry.

(2) Average churn rate is the rate of subscriber disconnections from our CDMA cellular network, which we have determined by dividing the sum of voluntary and involuntary deactivations during the period by the average of the number of our CDMA subscribers during the period.

(3) Average minutes of usage per subscriber per month is calculated by dividing the total minutes of usage during the period by the average of the number of our CDMA subscribers during the period, and dividing the result by the number of months in the relevant period.

(4) Average revenue per subscriber per month, or ARPU, is calculated by dividing the sum of CDMA cellular services revenue during the relevant period by the average of the number of our CDMA subscribers during the period, and dividing the result by the number of months in the period.

(5) Includes Unicom New Century, which merged into CUCL on July 30, 2004.

As of December 31, 2004, our total CDMA subscriber base in our cellular service areas reached 27.81 million, representing an increase of 64.5% from 16.91 million subscribers at December 31, 2003. Among the total CDMA subscribers, post-paid subscribers increased by 60.9% from 16.05 million as of December 31, 2003 to 25.82 million as of December 31, 2004, while prepaid subscribers increased by 130.4% from 0.86 million as of December 31, 2003 to 1.99 million as of December 31, 2004. Pre-paid subscribers represented 7.2% of the total number of CDMA subscribers in 2004. We believe the rapid growth in our CDMA subscriber base was primarily attributable to:

expansion of our CDMA cellular services areas as a result of the acquisition of Unicom New World,

the advantages of the CDMA technology, including the lower radio transmitting power of CDMA handsets as compared to GSM handsets, better voice quality and enhanced security,

improved network coverage and quality, and

increased brand awareness and our promotions and marketing efforts.

MOU, ARPU and Churn Rate

In 2004, total MOU for our CDMA services was 82.96 billion minutes, an increase of 89.8% from 43.70 billion minutes in 2003, and ARPU for our CDMA services was RMB85.3, a decrease from RMB128.4 in 2003. Average MOU per subscriber per month for our CDMA services was 292.3 minutes, 54.7% higher than the average MOU of 188.9 minutes for GSM services, while our CDMA ARPU was 72.7% higher than the ARPU of RMB49.4 for our GSM subscribers. The reasons for the increase in MOU and the decrease in ARPU for our CDMA services in 2004 are similar to the reasons for similar trends in GSM services. See B. Business Overview Cellular Services GSM Cellular Services MOU and ARPU under this Item 4.

The churn rate for our CDMA services is calculated in the same way as the churn rate for our GSM services and was 17.9% in 2004, higher than the 11.5% in 2003, but significantly lower than the 27.6% churn rate for our GSM services. Loss of CDMA subscribers was primarily attributable to the following reasons:

(i) the termination of some CDMA subscribers at the end of their contract periods under the CDMA handset promotional packages we began to offer in 2002;

(ii) increased competition as the focus of growth gradually shifts from new subscribers to increased usage; and

(iii) an increasing percentage of our CDMA subscribers are subscribing to pre-paid CDMA services, which are characterized by a higher churn rate than post-paid services and led to some subscribers switching from post-paid services to pre-paid services.

Payment Delinquency

As of December 31, 2004, the doubtful debt ratio for CDMA cellular services in our cellular service areas, calculated as the amount of provision for doubtful debt divided by revenue from CDMA cellular services, is 2.7%, compared to 2.4% in 2003 for CDMA cellular services in the service areas of CUCL and Unicom New Century. We have taken various measures to control payment delinquency for our CDMA services, which measures are similar to the ones taken to control payment delinquency for our GSM services. See B. Business Overview Cellular Services GSM Cellular Services Payment Delinquency under this Item 4.

Tariffs and Promotion

The tariff rates for our CDMA services are generally the State guidance rates for cellular services without the 10% discount we are permitted to adopt for GSM services. However, we have adopted other promotional programs. Generally we charge our post-paid cellular subscribers the following categories of tariffs: basic monthly fees, usage charges for both incoming and outgoing calls, roaming charges, long-distance call charges and charges for value-added services. Pre-paid subscribers do not pay monthly fees but pay higher per-minute usage and roaming charges.

To accelerate the growth in our CDMA subscriber base, we began offering special handset promotional packages in the second half of 2002. Under the handset promotional packages, CDMA mobile handsets purchased by us from handset suppliers were given to certain CDMA subscribers for their use at no additional cost during specified contract periods, ranging from 6 months to 2 years. In return, subscribers were required to incur a minimum amount of service fees during the contract period. If the contractual subscribers can fulfill the minimum contract spending amounts, they will not need to repay the remaining costs of the CDMA handsets.

Due to the high cost of the handset promotional packages, we have attempted to reduce the use of such packages, and concentrated instead on alternative promotional programs to develop our CDMA services. We focused on expanding the sales and marketing channels for our CDMA services by significantly increasing the number of sales agents. We emphasize improving our customer services and introducing new value-added data services to our CDMA subscribers. We also launched several marketing campaigns in 2004, which included increased advertising for our CDMA services, promotion of various customized package service plans that gave subscribers more choices, promotion of our CDMA 1X value-added services and promotion of our Worldwind CDMA and GSM dual-mode services. In addition, we have adopted the policy to centralize the purchases of CDMA handsets to control the costs of our CDMA promotional packages.

See D. Risk Factors – Risks Relating to Our Business – Our CDMA services have yet to gain a broad market acceptance in China and there is uncertainty over whether our CDMA services will succeed in gaining a broader market acceptance. under Item 3.

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SMS Services and Other Value-added Services

We began to offer SMS services in 2000. SMS volume has been increasing rapidly. A total number of 32.39 billion short messages were transmitted by GSM subscribers and 11.83 billion short messages by our CDMA subscribers in our cellular service areas in 2004. Our SMS services are offered under a uniform service brand of uni-Info and mainly include the following services: SMS transmission and receipt through handsets, content provider-assisted SMS, business SMS platform, voice SMS and other information services. We continue to promote the use of SMS as a convenient and cost effective method of business and personal communication. The SMS platforms of our GSM and CDMA networks are interconnected with each other. Our SMS platforms are also interconnected with the SMS platforms of China Mobile s GSM network, China Telecom s Little Smart network, and China Netcom s Little Smart network.

On August 1, 2001, Unicom Group and we launched our nationwide GSM wireless data services under the service brand of uni-Info . The Uni-Info services are presently based on a nationwide wireless information services platform. Uni-Info offers a variety of services in the categories of games, downloads and other entertainment services, information and notification services, personal information management and transactions services. We and Unicom Group cooperate with a number of national and regional content providers that supply our subscribers with Uni-Info services.

In March 2003, we launched CDMA 1X wireless data services under the uniform service brand of uni , with individual services offered under various sub-brands, including uni-Info , uni-Wap , uni-Mail , uni-Magic , uni-Map and uni-Web . uni-Info services are similar to the GSM offered under the same brand described above. uni-Wap services allow users to connect to and browse the Internet on their CDMA handsets. uni-Mail services allow users to (i) send and receive e-mails, either from other e-mail accounts or from the Internet and (ii) download and read attachments to the e-mail sent to the user s handset. uni-Magic services allow users to download pictures, games, entertainment services, business information and other forms of image. uni-Map services provide location-based information to users handsets. Retail users can find locations and research information with respect to a particular location. This service also offers industrial applications, such as the logistics industry and sea rescue services. uni-Web services offer wireless data transmissions with higher transmission rate and more stable connectivity than the GPRS services offered by our main competitor. In addition to the uni brand value-added services, we also offer the U-Net wireless internet services, which provide wireless internet access to laptop computers and mobile handheld devices equipped with a wireless internet card.

In late 2003, we began to provide personalized ring tone service under the brand name Cool Ring Tong , which allows a cellular subscriber to select personalized ring tones that his or her callers will hear after dialing his or her cell phone number. This new value-added service has grown rapidly since its introduction. Also in 2004, we introduced Music Street , a value-added service that allows our cellular subscribers to send music and other types of voice messages, record voice messages and listen to music by dialing designated service numbers.

In 2004, in order to develop our CDMA 1X value added services, we took the following measures:

Through the improvement of the uni services, more staff training, advertising and promotions, trial programs and our various other efforts, we strengthened marketing efforts for our CDMA 1X services;

We improved the content of our CDMA 1X services, through strengthening service support of and cooperation with content providers and service providers, in order to increase the appeal of these services;

Through cooperation with partners in specific industries, we launched new applications such as Unicom Police Applications , Unicom Horizon Maritime Applications and Stock-in-Palm ;

Through promotional packages and the establishment of free trial zones in our retail stores, we sought to reduce the obstacles for subscriber usage of our CDMA 1X services;

We introduced CDMA 1X services specifically catering to the youth to support the launch of the Up New Power service brand that is designed for the youth market; and

We introduced more information services in order to increase the usage of our CDMA 1X services.

We have designed a fee structure under which we earn transmission fees from the use of our GSM and CDMA value added services and retain a certain percentage of application fees charged by content providers that we collect for them.

Long Distance, Data and Internet Services

We offer international and domestic long distance services in China based on both the traditional public switched telephony standard and the IP telephony standard. Our long distance services are based on our advanced, uniform nationwide network system. We leverage our ability to integrate our long distance services with a broad range of services to target different customer segments. We have also developed a nationwide video-conferencing network that reaches over 300 cities. We launched our data and Internet services throughout China in 2000. Similar to our long distance services, our data and Internet services are supported by our advanced, unified nationwide network system.

The following table sets forth the total number of outgoing call minutes for our long distance services and our data and Internet services for the periods indicated.

	As of or for the year ended December 31,		
	2002	**2003**	**2004**
Public switched telephony (in billions of minutes):			
Domestic	6.23	8.31	9.94
International	0.14	0.13	0.16
Total	6.37	8.44	10.10
IP telephony (in billions of minutes):			
Domestic	6.75	11.25	13.81
International	0.13	0.14	0.14
Total	6.88	11.39	13.95
Data Services			
Bandwidth leased to customers (2Mbps)	1,466	7,194	9,007
Internet Services			
Dial-up subscribers (in thousands)	7,270	12,385	13,563
Dedicated access subscribers	22,596	47,750	61,569

Public Switched Telephony Services

We offer public switched long distance, or PSTN, services to business and residential customers who register their telephone numbers with us. They can access our services by dialing a prefix of 193 . We also distribute pre-paid long distance calling cards that purchasers can use to access our services by dialing a prefix of 193300 . For some corporate and government customers, we also offer our public switched long distance services over dedicated lines, frequently as part of our integrated offerings of long distance and data services. We also offer long distance services to our cellular subscribers.

The following table sets forth selected information about our public switched long distance telephony services for the periods indicated.

	As of or for the year ended on December 31,	
	2003	2004
Number of cities reached	329	332
Minutes of outgoing long distance calls (in billion)	8.44	10.10
Market share of outgoing long distance call minutes [1]	14.33%	13.6%
Minutes of incoming international calls (in billion)	1.78	2.47

(1) *Source*: MII. In calculating market share, the total minutes of outgoing long distance calls include ours and those of the incumbent operators.

Tariff rates for public switched long distance telephony services of incumbent fixed line operators are set by the Chinese government. Other fixed line operators, including us, can adopt tariffs that are different from the State tariff rates upon approval by the MII as long as they do not offer services at tariff rates below cost. The following table sets forth our present tariff rates (including rates applicable to domestic and international long distance calls made by our cellular subscribers):

	Regular Tariff Rates	Discount Rates
	RMB per six seconds	
Public switched Domestic Long Distance:	0.06	0.03
Public switched International Long Distance:		
To Hong Kong, Taiwan and Macau	0.18	0.15
To all other international destinations	0.72	0.38

The discount period is every day from 10pm to 7am of the following day, with two more hours for the Tibet and Xinjiang autonomous regions. Effective August 21, 2001, we adjusted the discount rates set forth in the table above as follows:

RMB0.04 per six seconds every day from 8pm to 10pm;

RMB0.03 per six seconds every day from 10pm to 7am of the following day; and

RMB0.04 per six seconds on public holidays and weekends from 7am to 8pm.

Settlement of outgoing and incoming international calls with international operators is conducted through negotiated contracts such individual international operators, which contracts must be approved by the MII.

We have adopted a number of measures to increase the number of our registered long distance customers, including, among others, organizing sales agents to promote our services in residential areas, and cross-selling our long distance services with our cellular services at our service centers.

IP Telephony Services

We offer domestic and international long distance IP telephony services through interconnection of our IP network with the Internet and other telecommunications networks based on a manageable IP network configuration to enhance service quality. The following table sets forth selected information about our IP telephony services for the periods indicated.

	As of or for the year ended December 31,		
	2002	2003	2004
Number of cities reached	337	337	341
Minutes of outgoing IP telephony calls (in billion)	6.88	11.39	13.95
Domestic	6.75	11.25	13.81
International, Hong Kong, Macau & Taiwan	0.13	0.14	0.14
Market share of outgoing IP calls minutes(1)	11.7%	13.8%	12.1%
Minutes of incoming international calls (in billion)	0.16	0.13	0.28

(1) *Source:* MII.

Our IP telephony services include the following services:

IP telephony services using the 17910 access code, which allows users to dial long distance phone numbers as follows: 17910 + IP card number + password + long distance number . There are three types of such services: (a) users can register for an IP card, pay the accumulated charges on the card on a monthly basis after receipt of a bill from us, (b) users can purchase an IP card with a pre-paid value, which can be re-filled after the user has used up the value on the card, or (c) users can purchase an IP card with a one-time-only pre-paid value.

IP telephony services using the 17911 access code, which allows users to dial long distance phone numbers as follows: 17911 + long distance number . There are two types of such services: (a) users can register for our services at any of our offices or our designated agents offices free of charge, or (b) users can purchase a pre-paid IP card from us, input the card number and password the first time the IP card is used, and thereafter dial international or domestic long distance calls only with the 17911 prefix.

Dedicated IP telephony services users of these services only need to dial the long distance phone number to be connected.

Direct IP telephony services Pursuant to authorization from the MII, we are providing fixed long distance direct-dialing IP telephony services nationwide. As of December 31, 2004, we have set up more than 20,000 IP convenient stores nationwide. IP convenient stores are fixed-line long distance call centers in locations with a high concentration of callers who do not otherwise have access to fixed or wireless telephony services. These call centers provide long distance telephony services to customers on a pre-paid basis.

In February 2001, the Chinese government ceased regulatory control of tariffs for IP telephony long distance calls and allowed operators to set their own rates. The following table sets forth our present tariff rates for our IP telephony services (including rates applicable to IP long distance calls made by our cellular subscribers).

	Our Tariff Rates (RMB)
IP Telephony Domestic Long Distance	0.30 per minute
IP Telephony International Long Distance	
To Hong Kong, Taiwan and Macau	1.5 per minute
To U.S. and Canada	2.6 per minute
To other international destinations	3.6 per minute

Effective September 1, 2001, we adjusted our tariff rates for our IP telephony services for certain international destinations. The tariff rate for calls to 14 countries, including India, was adjusted to RMB4.60 per minute, and the tariff rate for calls to the U.S. and Canada was adjusted to RMB2.40 per minute.

We rely primarily on our network of sales agents to sell IP telephony cards. We also market registered IP telephony services and IP telephony services through dedicated lines.

Data Services

We presently provide data services in over 300 cities in China. We target high volume business or government users of integrated voice, data and video communications and offer them data services as part of our integrated offerings of long distance, data and Internet services. As of December 31, 2004, the total leased bandwidth of our ATM and FR data services was 9,007 x 2 Mbps.

Our data service offerings mainly consist of broadband, managed data services, including:

Frame relay, or FR, services, which provide high speed and cost effective data communications services linking remote business sites using FR technology;

Asynchronous transfer mode, or ATM, services, which employ ATM technology and are able to handle high bandwidth, integrated voice, video, data and Internet traffic; and

Broadband video-conferencing and video-telephony services, which are provided under the brand name of Uni-Video . These services currently include video-conferencing, video-telephony, video conference room leasing and video public telephony services. These services are based on our existing unified data network platform. Two or more users can use our services by connecting to the Internet or our video network through video-conferencing terminals or computer terminals.

The following table sets forth selected information about our data services for the periods indicated.

	As of or for the year ended December 31,		
	2002	**2003**	**2004**
Number of cities reached	297	316	328
Bandwidth leased to customers	1,466	7,194	9,007

We provide data services through an advanced, unified nationwide network system, the backbone of which is our advanced nationwide fiber optic transmission network. This network is the second largest fiber optic transmission network in China. We have also built metropolitan area networks in many cities throughout China. These networks provide local transmission capacity for our different services. See – Networks – Transmission Network below.

We believe that our ability to offer integrated access to customers premises is important to the success of our data services. We continue to build integrated access networks linking major office buildings to our networks in major cities. See – Networks – Long Distance, Data and Internet Networks below.

Our charges for ATM and FR services include one-time, up-front charges for installation materials (currently RMB500 per port for ATM services and RMB300 per port for FR services) and testing (currently RMB500 per circuit or port for ATM services and RMB300 per circuit or port for FR services), a monthly port fee and a monthly circuit fee. Our tariff charges are generally offered at a 10% discount from the State guidance tariffs.

The following table sets forth our tariff rates for monthly port fees for FR data services of selected bandwidths.

FR Services Port Fee (RMB per month)	
Bandwidth (bps)	**Port Fee**
64k	260
128k	300
256k	400
384k	450
512k	500
768k	650
1M	750
2M	1,000

The following table sets forth our tariff rates for monthly permanent virtual circuit (PVC) fees for FR data services of selected bandwidths and selected distance categories.

	FR Services PVC Fee (RMB per month)					
Bandwidth	**Local (intra-district)**	**Local (inter-district)**	**Domestic long distance**	**Hong Kong, Macau & Taiwan**	**International long distance (Asia)**	**International long distance (outside of Asia)**
8kbps	290	440	990	1,550	8,800	9,400
16kbps	390	540	1,190	1,800	10,000	10,500
32kbps	450	650	1,300	2,000	11,500	11,500
48kbps	500	750	1,500	2,300	13,000	13,500
64kbps	550	800	1,700	2,600	14,500	14,600
128kbps	700	1,000	2,100	3,400	18,000	18,400
256kbps	800	1,150	2,200	3,500	19,000	19,600

384kbps	850	1,350	2,300	3,800	20,000	20,500
516kbps	1,000	1,450	2,500	4,100	22,300	23,100
768kbps	1,150	1,600	2,700	4,600	25,800	26,550
1Mkbps	1,250	2,000	3,000	5,200	28,900	30,050
2Mkbps	1,500	2,200	4,000	7,000	39,000	39,000

The following table sets forth our tariff rates for monthly port fees for ATM services of selected bandwidth.

ATM Services Port Fee (RMB per month)	
Bandwidth	Port Fee
256K	400
512K	500
1M	750
2M	1,000
4M	2,000
6M	3,000
8M	4,000
10M	5,000
12M	6,000
34M	7,000
45M	8,000
100M	9,000
155M	10,000

The following table sets forth our tariff rates for monthly circuit fees for ATM data services of selected bandwidths and selected distance categories.

Bandwidth	ATM Services Circuit Fee (RMB per month)					
	Local (intra-district)	Local (inter-district)	Domestic long distance	Hong Kong, Macau & Taiwan	International long distance (Asia)	International long distance (outside of Asia)
256Kbps	800	1,150	2,200	3,500	19,000	19,600
512Kbps	1,000	1,450	2,500	4,100	22,300	23,100
1Mbps	1,250	2,000	3,000	5,200	28,900	30,050
2Mbps	1,500	2,200	4,000	8,000	39,000	39,000
4Mbps	2,000	3,000	6,000	12,900	72,200	72,200
6Mbps	2,500	5,500	9,000	19,800	105,400	105,400
8Mbps	3,500	8,500	12,000	26,700	138,700	138,700
10Mbps	5,000	11,500	15,500	30,600	157,800	157,800
15Mbps	7,000	15,000	22,000	40,000	205,000	205,000
20Mbps	7,500	17,500	29,000	49,000	252,300	252,300
25Mbps	8,000	21,000	36,000	59,000	300,000	300,000
30Mbps	9,000	24,000	42,000	69,000	348,500	348,500
40Mbps	10,000	29,000	52,000	88,500	416,000	416,000
50Mbps	10,500	32,000	60,000	108,200	486,600	486,600
60Mbps	11,000	33,000	68,000	122,600	567,900	567,900
70Mbps	11,500	35,000	76,000	137,000	649,100	649,100
80Mbps	12,000	36,000	84,000	151,300	730,400	730,400
90Mbps	12,500	37,000	92,000	165,700	811,600	811,600
100Mbps	13,000	37,500	100,000	180,100	892,900	892,900
110Mbps	13,500	38,000	107,500	187,300	933,500	933,500
130Mbps	13,800	38,500	122,500	201,600	1,014,800	1,014800
155Mbps	14,500	39,000	130,000	216,000	1,096,000	1,096,000

Effective April 2003, we began charging our corporate customers fees for our Uni-Video services based on package service plans, including up-front charges for testing, a monthly fee and telecommunications charges. Retail customers of our Uni-Video services purchase re-chargeable cards to pay for such services.

Our target customer groups are government offices, financial institutions, multinational or multi-regional corporations, large- and medium-sized enterprises in China, and Internet service providers and Internet content providers that provide telecommunications services. We market our data services through our dedicated teams and our sales agents.

Internet Services

We offer the following Internet services:

Dedicated Internet Access. We began to offer business customers high speed Internet access through dedicated lines in 2000. As of December 31, 2004, we had a total of 61,569 subscribers for dedicated Internet access. We package this service with voice and data services to provide integrated communications solutions to our business customers and cooperate with cable operators and real estate developers to offer broadband access to residential customers.

Dial-up Internet Access. We began to offer dial-up Internet access services to customers in 2000. As of December 31, 2004, the total number of our dial-up subscribers increased to 13.56 million from 12.38 million in 2003.

Ruyi Mailbox Services. This service allows our cellular subscribers to use their cellular phone numbers as e-email address. As of December 31, 2004, the number of Ruyi Mailbox subscribers increased to 14.69 million from 7.81 million in 2003.

IDC Services. We have built Internet data centers (or IDC) in 10 cities including Shanghai, Beijing, Guangzhou and certain provincial capitals, and provide server hosting, server rental, virtual servers and other IDC services to commercial customers and virtual IDC operators.

Others. Other Internet services we offer include a chain of Internet cafes (Unicom s Internet Plaza services), international Internet Protocol-Virtual Private Network (or IP-VPN), Virtual Private Data Network (or VPDN), Virtual Internet Service Provider (or VISP), Uninet international roaming and corporate e-mail services.

The following table sets forth selected historical information about our Internet service operations and our subscriber base for the periods indicated.

	As of December 31,		
	2002	**2003**	**2004**
Number of cities reached by our dedicated Internet access services	317	323	327
Number of cities reached by our dial-up Internet access services	305	325	328
Number of subscribers of dedicated Internet access services	22,596	47,750	61,569
Number of subscribers of dial-up Internet access services (in thousand)	7,270	12,385	13,563

Our tariff charges for registered dial-up access include a network usage fee and a fixed telecommunications fee (charged to users of our PSTN long distance services only). In addition, those registered accounts that charge based on usage volume include an up-front account set-up fee and those accounts that charge based on monthly usage include a monthly fee. Our tariff charges for dial-up access through pre-paid cards include only a network usage fee and a fixed telecommunications fee. The following table sets forth the various tariff charges for our dial-up access services:

	Registered Accounts			
	Volume-Based Service Plan	**Monthly Service Plans**		**Pre-Paid Cards**
Account Set-up Fee (RMB)	100			
Monthly Fee (RMB)		50	100	
Network Usage Fee				
Local Fee (RMB/Hour)	2.7	2.2	1.8	2.5
Roaming Fee (RMB/Hour)	3.0	3.0	3.0	2.8
Telecommunications Fee (RMB/Minute)	0.02	0.02	0.02	0.02

The network usage fee is discounted, at an amount equal to half of the amounts set forth above, on legal holidays and weekends and on weekdays from 11 p.m. to 8 a.m. of the following day.

Our tariff charges for dedicated Internet access include a network usage fee, an account set-up fee and a fixed telecommunications fee. Network usage fee is calculated based on monthly service plans. The account set-up fee is RMB100. The fixed telecommunications charge is based on the relevant tariff for the particular type and bandwidth of leased lines used to access the Internet. The following table summarizes the monthly network usage fees for selected bandwidths denoted as R .

	Network usage fees (RMB per month)
R≤64Kbps	2,700-3,600
64Kbps<R≤128Kbps	3,600-4,900
128Kbps<R≤256Kbps	4,800-6,600
384Kbps <R≤512Kbps	8,500-12,000
1024Kbps<R≤2Mbps	18,000-27,000
8Mbps <R≤10Mbps	59,400-70,000
20Mbps<R≤34Mbps	165,900-195,200
34Mbps <R≤45Mbps	210,000-250,000
45Mbps<R≤100Mbps	428,400-504,000
100Mbps<R≤155Mbps	664,100-781,200

Our provincial and local branches are permitted to make tariff decisions within the range set forth above. For customers who lease a high number of dedicated access lines, we provide discounts of up to 20% of the tariffs set forth in the table above.

We charge a monthly usage fee for our Ruyi Mailbox services, which is currently RMB6 per month. We do not charge for SMS notifications of e-mail receipt. Other e-mail functions performed through SMS are charged based on the SMS tariff rates for our uni-Info services.

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The network code for our nationwide dial-up Internet services is 165 . We distribute dial-up Internet access services through a variety of methods. A customer can pre-register for our dial-up services or purchase dial-up passwords with a pre-paid amount of on-line charges that can be used nationwide to access the Internet. We also have arrangements with some commercial banks that allow the banks customers to access our dial-up services using their bank account numbers, with on-line charges being automatically debited from their bank accounts.

Leased Line Services

We began to lease transmission lines to large business customers and other telecommunications operators in April 2000. Our leased line services provide customers with dedicated digital links directly connecting customer sites. As of December 31, 2004, we had a total leased bandwidth of an equivalent of 51,598 x 2 Mbps circuits, representing a 95.1% increase from 26,449 x 2 Mbps circuits at the end of 2003.

Leased line tariffs are primarily based on the bandwidths of the lines leased and the distance of transmission. The following table sets forth State tariff rates for monthly fees of selected types and bandwidths of leased lines and selected distance categories:

	State Tariff Rates (RMB per month)		
	Local (intra-district)	**Local (inter-district)**	**Long distance**
Digital Line (2 Mbps)	2,000	4,000	6,000
Digital Line (34 Mbps)	16,000	31,000	47,000
Digital Line (155 Mbps)	44,000	88,000	132,000

Source: MII.

Similar to public switched long distance telephony services, operators other than incumbent operators, including us, can adopt tariffs that are different from the above State tariff rates upon approval by the MII as long as they do not offer services at tariff rates below cost. We generally offer leased line services at a 10% discount to the State tariff rates and market these services to institutional customers through our own dedicated teams and our sales agents.

Sale and Lease of Other Network Elements

We have substantially completed the construction of our nationwide transmission network. See – Networks – Transmission Network below. We have started to offer some network elements such as optic fibers or fiber channels for lease to other telecommunications operators or corporate customers.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our telecommunications networks to other networks. Our cellular and long distance networks interconnect with Unicom Group s cellular networks. Under current arrangements, settlement between Unicom Group and us is based on an internal settlement standard that takes into account either the internal costs of the relevant networks or the government standard applicable between third-party operators, whichever is the more favorable to us.

Unicom Group s cellular networks, our cellular networks and our long distance networks interconnect with the fixed telephone networks of China Telecom, China Netcom and China Railcom. Unicom Group s cellular networks and our cellular networks also interconnect with China Mobile s cellular networks. Our Internet network interconnects with the Internet networks of China Telecom and China Netcom. Although we continue to encounter some difficulties in the execution of our interconnection arrangements with other operators in some service areas, the situation improved in 2004 due to improved regulatory supervision by the Chinese government in this area.

In October 2003, the MII issued regulations relating to settlement between telecommunications networks. These new regulations contain provisions regarding revenue sharing methods and settlement mechanisms for interconnection arrangements between us and other operators. These interconnection arrangements under the new regulations are described in – Regulatory and Related Matters – Interconnection Arrangements below.

Unicom Group entered into interconnection arrangements with China Telecom, China Netcom and China Mobile with the following agreements, which equally apply to us.

Framework interconnection and settlement agreement between Unicom Group and the former China Telecom, dated September 30, 2001, the rights and obligations of which were divided and continued after the former China Telecom was split into China Telecom and China Netcom pursuant to an agreement among Unicom Group, China Telecom and China Netcom, dated April 23, 2003. These interconnection and settlement arrangements with China Telecom and China Netcom were superseded by the interconnection and settlement agreement between Unicom Group and China Telecom, dated March 29, 2004 and the interconnection and settlement agreement between Unicom Group and China Netcom, dated April 2, 2004. The 2004 agreements contained more detailed provisions relating to interconnection quality, pursuant to new MII directives in this area.

Agreement between Unicom Group, China Telecom and China Netcom, relating to the continuation and division of rights and obligations of the parties under Unicom Group s prior interconnection agreement with the former China Telecom, dated April 23, 2003.

Interconnection and settlement agreements between Unicom Group and China Mobile relating to the interconnection between Unicom Group s GSM and CDMA cellular networks and China Mobile s GSM cellular networks, both dated November 14, 2001, which were amended by the parties on December 31, 2003.

Interconnection and settlement agreement between Unicom Group and China Mobile regarding the interconnection of point-to-point short messaging services, dated April 1, 2002.

Interconnection and settlement agreement between Unicom Group and China Mobile regarding the interconnection between China Mobile s GSM cellular networks and Unicom s telecommunications networks, including its local fixed line telephony networks, domestic long distance telephony networks, international telephony networks and IP telephony network, and the interconnection between China Mobile s international gateways and IP telephony network and Unicom Group s cellular networks and local fixed line telephony networks, dated December 31, 2003.

Agreement between Unicom Group and China Mobile regarding the mutual provision of open service platforms, dated November 5, 2003.

Unicom Group has also entered into the following interconnection arrangements, which equally apply to us.

Interconnection and settlement agreements between Unicom Group and China Railcom relating to the interconnection of Unicom Group s cellular networks and local fixed line telephony networks and China Railcom s local fixed line telephony networks, domestic long distance networks and IP telephony networks, dated January 25, 2002 and April 9, 2002.

Supplemental agreements between Unicom Group and China Railcom, which allows each party to offer its domestic and international long distance telephony services and IP telephony services to the cellular or fixed line telephony service subscribers of the other party, dated April 23, 2003.

Interconnection and settlement agreement between Unicom Group and China Satellite Communications Corp, or China Satcom, relating to the interconnection between Unicom Group s networks and China Satcom s Global Star satellite mobile communications network, dated September 27, 2003.

Framework interconnection and settlement agreement between Unicom Group and China Satcom relating to the interconnection between Unicom Group s cellular networks and China Satcom s IP telephony networks, dated September 24, 2003.

Interconnection agreement among major Internet operators, including Unicom Group, and three national Internet switching centers relating to the interconnection of Internet backbone networks, dated December 20, 2001.

Interconnection and settlement agreement between Unicom Group and China Telecom relating to the provision of point-to-point SMS services between Unicom Group s and China Telecom s networks, dated October 10, 2004.

Interconnection and settlement agreement between Unicom Group and China Netcom relating to the provision of point-to-point SMS services between Unicom Group s and China Netcom s networks, dated October 11, 2004.

See B. Related Party Transactions Provision of Ongoing Telecommunications and Ancillary Services and Premises CDMA Interconnection and Roaming Arrangements under Item 7 below for the interconnection and settlement arrangements between Unicom Group and us.

Roaming

We have entered into roaming arrangements with Unicom Group. In addition, as of December 31, 2004, our cellular subscribers can roam on cellular networks in Europe, North America and other Asian countries and regions through Unicom Group s international roaming agreements with 211 GSM operators in 101 countries and regions and 15 CDMA operators in 12 countries and regions. Unicom Group has agreed to arrange for us to participate in its future international roaming arrangements.

A cellular subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long distance tariffs. Under our roaming agreement with Unicom Group, our subscribers who roam on Unicom Group s networks are charged for each call made or received. We collect this tariff, retain RMB0.20 and pay the remaining amount to Unicom Group. On the other hand, when Unicom Group s subscribers roam on our networks, Unicom Group collects the roaming tariff, retains only RMB0.04 and pays us the remaining amount.

The following table is a summary of roaming settlement between Unicom Group and us:

	Roaming Tariff	Paid to Unicom Group	Retained by Us
For our subscribers roaming on Unicom Group s networks			
GSM pre-paid users (RMB/minute)	0.60	0.40	0.20
GSM post-paid users (RMB/minute)	0.60	0.40	0.20
CDMA users (RMB/minute)	0.60	0.40	0.20

	Roaming Tariff	Paid to Us	Retained by Unicom Group
For Unicom Group s subscribers roaming on our networks			
GSM pre-paid users (RMB/minute)	0.60	0.56	0.04
GSM post-paid users (RMB/minute)	0.60	0.56	0.04
CDMA users (RMB/minute)	0.60	0.56	0.04

With respect to international roaming, we settle roaming revenue with international operators through Unicom Group in accordance with roaming agreements between Unicom Group and each of the international operators.

See B. Related Party Transactions Provision of Ongoing Telecommunications and Ancillary Services and Premises Roaming Arrangements under Item 7 below for further information regarding the roaming arrangements between Unicom Group and us.

Networks

We operate an advanced network system to support our integrated operations. The backbone of the system is a nationwide fiber optic transmission network, which serves as the common platform for our cellular, long distance, data and Internet networks. In addition, we continue to develop management and network support systems to enhance the quality and reliability of our networks and improve our customer service and operating efficiency. We generally utilize a centralized network planning and equipment selection process, which ensures uniform nationwide design and network compatibility.

Transmission Network

We own and operate an advanced nationwide fiber optic transmission network (except for the Tibet autonomous region, in which we lease capacity from other operators). As of December 31, 2004, our fiber optic transmission network reached 326 cities with a total cable length of approximately 712,000 km, of which fiber optic backbone transmission network accounted for approximately 122,000 km.

Our fiber optic transmission network is designed for broadband capacity with superior security and reliability, which supports our integrated telecommunications services and allows us to lease capacity to other telecommunications operators and corporate customers. The network deploys:

synchronous digital hierarchy, or SDH, architecture with protective two- or four-fiber rings, a self-healing system that allows for instantaneous rerouting, automatically protects service circuits and minimizes down time in the event of a fiber cut or equipment malfunction;

dense wave division multiplexing, or DWDM, technology, a means of increasing transmission capacity by transmitting signals over multiple wavelengths through a single fiber; and

digital cross connection, or DXC, system, a specialized high-speed data channel exchange and connection system that effectively manages the routing and channeling of our services.

Our SDH fiber rings have transmission bandwidths of 2.5 Gb/s in most routes and 10 Gb/s for the fiber ring that covers the eastern and southern coastal areas of China. We deploy mainly transmission equipment and technology supplied by Siemens, Nortel, Lucent, Alcatel, Huawei, ZTE and other vendors.

Concurrent with the construction and expansion of our domestic backbone transmission network, we also seek to expand our international bandwidth. Through our participation in the Asia Pacific Cable Network No. 2 Project (APCN 2), a trans-pacific submarine cable project that connects major countries and regions in eastern Asia and southeastern Asia and links them to North America through Japan, and our membership in the US-Japan Sub-marine Cable Organization, we are linked with 11 operators in Japan, U.S., South Korea, Singapore and Taiwan with 155x30 Mbps capacity. We also lease 3669 Mbps of international broadband transmission capacity. We have also opened transmission lines on land with the main operators in Hong Kong and Macau, with 15 Gbps and 622 Mbps of transmission capacity. As of the end of 2004, we have 20 Gbps of international broadband transmission capacity. In addition, we have established fiber-optic interconnections among China, Mongolia and Russia, between China and North Korea and between China and Russia, with transmission capacity of 622Mbps, 622Mbps and 2.5Gbps, respectively.

As of March 31, 2005, our metropolitan area networks cover 341 cities throughout China, with a total length of approximately 681,000 km. These networks provide a unified, high-speed local transmission platform for our cellular, data and Internet services.

Cellular Networks

A cellular network consists of:

- cell sites, which are physical locations, each equipped with a base station that houses transmitters, receivers and other equipment used to communicate through radio channels with subscribers cellular handsets within the range of a cell;

- base station controllers, which connect to, and control, the base stations;

- mobile switching centers, which control the base station controllers and the routing of telephone calls; and transmission lines, which link the mobile switching centers, base station controllers, base stations and the public switched telephone network.

We own most of the GSM cellular transmission network at the local and provincial level. We lease a portion of our inter-provincial transmission capacity for our cellular networks as well as the CDMA cellular transmission network. We also use our own backbone fiber optic transmission network to provide transmission capacity for our cellular networks. We continue to focus on the management and operation of our cellular networks.

GSM Cellular Networks. The following table sets forth selected information regarding our GSM cellular networks in our service areas as of the dates indicated.

	As of December 31,		
	2002	2003	2004
Network subscriber capacity (in thousands of subscribers)	60,920	68,050	84,552
Base stations	48,111	56,653	81,819
Base station controllers	1,197	1,345	1,653
Mobile switching centers	405	426	493

Currently our GSM cellular network mainly operates at 900 MHz. We have deployed GSM technology that operates at 1800 MHz in some major metropolitan areas to supplement the capacity of our existing cellular network. We have the right to use 6 x 2 MHz of spectrum in the 900 MHz frequency band and 10 x 2 MHz in the 1800 MHz frequency band for our GSM network.

Our cellular networks are supported by an advanced SS7 signaling system, which fosters efficient use of network capacity, reduces call set up time and enhances transmission capabilities. We have also installed intelligent networks that enable us to provide pre-paid services and a wide range of call features and value-added services.

CDMA Cellular Network. Unicom Group completed the construction of the first phase of its nationwide CDMA network at the end of 2001. The first phase of the CDMA network has a total capacity of 15.62 million subscribers in our service areas. In 2003, Unicom Group completed the second phase of the CDMA network construction, which added an additional capacity of 20.69 million subscribers nationwide and included the upgrade of the network to CDMA 1X technology. The CDMA networks constructed in the second phase did not share as much infrastructure with the GSM network. Wireless data services that utilize CDMA 1X technology were introduced in major cities in our cellular service areas in March 2003. In 2004, Unicom Group substantially completed the third phase of the CDMA network construction, adding an additional capacity of approximately 36.23 million subscribers nationwide and significantly improving the coverage and quality of the CDMA network. We lease CDMA network capacity in our cellular service areas and have the exclusive right to operate its network in those areas. We have the right to use 10x2 MHz of spectrum in the 800 MHz frequency band for our CDMA services.

Long Distance, Data and Internet Networks

By the end of 2004, our public switched long distance network reached 332 cities, while the coverage of our Internet networks, including our IP telephony networks, included approximately 330 cities throughout China.

Long Distance Network. Our long distance network is supported by a nationwide billing system and an intelligent network, which allows us to provide multiple services. Our cellular subscribers can access these services directly through our cellular networks, but our other customers typically access our long distance telephony, IP telephony and Internet services through the public switched telephone networks of China Telecom and China Netcom. As of December 31, 2004, the total network capacity for our IP telephony services reached 22,422E1, or a voice capacity of 20 billion minutes per year. E1 is the European format for digital transmission and carries signals at 2Mbps.

Data and Internet Networks. Our broadband data and Internet networks utilize a unified IP and ATM design, which is particularly suited for real-time, multimedia applications such as video and voice. ATM switches perform high-speed switching of voice and data traffic and minimize time delay and congestion. They can also prioritize applications that least tolerate time delay, such as telephony and video, over less time-sensitive applications such as e-mails and file transfer. As of December 31, 2004, the international and domestic interconnection bandwidths have reached 3.34Gbps and 14.88Gbps, respectively.

Internet Network. Our Internet network, branded as Uninet , is also centrally designed and has a nationwide uniform architecture. It is supported by a nationwide, advanced billing system that facilitates roaming access and delivery of virtual ISP services and other value added services.

Broadband Video Network. Our broadband video network utilizes the H.323 technological standard and two-tier network structure. H.323 is a widely used multi-media conferencing protocol approved by the International Telecommunications Union. As of December 31, 2004, it can provide video conference and video telephone services and currently reaches 330 cities nationwide as well as the United States and Hong Kong.

Integrated Access Networks. We believe that the key to the success of our data services is our ability to offer integrated access to customers premises. We are building integrated access networks in many cities throughout China. We focus the construction of our access networks on linking major office buildings to our metropolitan area transmission networks. We rely mainly on fiber optic cables to link office buildings to our networks and have offered narrow-band wireless access at the 3.5 GHz frequency band in approximately 23 provincial capitals and 14 provinces.

Integrated Management and Network Support Systems

We have developed various management and network support systems to support our various networks. Our customer service, billing and settlement systems are integrated into a single system. In addition, we are in the process of developing an integrated information and management system (UNI-IT), which includes management support systems (MSS), business support system (BSS) and enterprise resource planning systems (ERP).

Marketing, Sales and Distribution

We centrally plan our nationwide marketing and sales strategies, but the implementation of these strategies is carried out at the provincial level by operating branches tailored to their specific markets. In 2004, we focused on the concept of effective growth by pursuing earning-driven and cost-effective marketing and sales strategies.

Marketing

We focus on developing a strong brand image for our company that conveys our strengths in high quality and comprehensive services, nationwide coverage, integrated offerings, advanced technology and customer focus. We market all of our services under the China Unicom brand name. We emphasized brand management in 2004, by developing a customer-oriented branding system based on our product profile so as to standardize our operations and ensure consistency in our promotional activities.

Our marketing strategy utilizes our image as an integrated telecommunications service provider and leverages on our integrated services and nationwide sales and distribution network. By using direct sales forces and sale agents and active market analysis and through service centers, large department stores and chain stores, our marketing strategy can be targeted at different customer segments and tailored according the demands of different markets, enabling us to timely adjust our services. In addition, we also seek to enter into strategic alliances in order to further expand the breath and depth of our marketing and sales efforts. In September 2004, we entered into a wireless Internet joint marketing agreement with Intel, HP, IBM, Lenovo and Digital China to develop the industry value chain for our U-Net services based on the CDMA 1X network.

We seek to formulate effective marketing strategies through customer relations management and analysis of customer segmentation, customer demand and consumption trends.

Cellular services: We promote our CDMA services as cellular services with such advantages as better voice quality, better security, lower handset radio transmitting power and, in the case of CDMA 1X services, high data transmission rates and comprehensive value added wireless data services. In 2004, we focused on developing the CDMA industry value chain. Under the principle of open, cooperate and win-win , we strengthened support for and streamlined our relationship with service and content providers. We have also adopted the policy to centralize our purchasing of the Cool Phone handsets and certain other models of CDMA handsets in an attempt to lower the entry barrier of our CDMA services caused by high handset price and make the CDMA services more attractive and affordable to the mass market. In addition, our CDMA-1X services continued to develop. By offering trial packages of the CDMA-1X services and requiring users of our promotional packages to have a minimum monthly spending on value-added services, we promoted usage of the CDMA-1X wireless data service.

We also continued to expand the subscriber base for our GSM services, which is mainly based on voice and SMS services. Our marketing strategies for GSM services focused on the continued development of the voice and SMS services as well as promoting the Cool Ring Tong service and the Music Street service.

Recognizing the importance and the needs of our institutional customers and utilizing our advantages of being an integrated telecommunications operator, we formulated marketing strategies for our cellular services that were specific to our institutional customers. In 2004, we emphasized the development of advanced and customized industrial applications for our institutional customers. By offering industrial solutions, our business extended from the provision of basic telecommunications services to comprehensive information services. For example, we launched several industry-specific applications based on the CDMA-1X network, including Unicom Horizon Police Application , Unicom Horizon Maritime Application and Stock-in-Palm .

In 2004, we consolidated our brands of wireless data value-added services under one uniform brand, uni , and aimed to build it into a new media portal brand for content consumption, with emphases on entertainment , life and commerce . Meanwhile, the U-Net brand was positioned to be a high-end brand for wireless Internet access for laptop users.

In addition we have started promoting the following customer-oriented cellular services brands in 2004: (i) Ruyi Tong , which is designed for the mass market and features voice services on either the GSM or the CDMA network, the uni-Info value-added services and SMS services, (ii) New Horizon , which targets mid- to high-end users as well as institutional and business customers, offering CDMA-based voice services, the uni value-added services and industry-specific applications, (iii) Worldwind , which features dual-mode voice services and the uni services, and (iv) UP New Power , which is designed for the youth market, with either GSM- or CDMA-based voice services, SMS services as well as the uni-Wap value-added services. We believe that development of these customer oriented service brands will help us adapt to the changing market condition and improve customer loyalty.

Long distance, data and Internet services: In 2004, we focused on institutional customers, including financial institutions, large corporations, multi-national corporations, government entities and Internet service providers and Internet content providers, in order to provide them one-stop solutions. For example, we provided integrated long-distance, Internet and data services under the Uni-One brand to institutional customers. Our marketing efforts with respect to retail customers included the marketing of co-branded long distance telephony cards. Under these arrangements, our institutional partners purchased such cards from us and distributed the cards to their employees or customers, thereby facilitating the sale of our long distance telephony services. We have also focused on the marketing of our long distance, Internet and data services to our existing cellular customers, as well as coordinating the marketing of these services with the marketing efforts of our cellular services.

Service Bundling and Cross-Marketing: A key element of our sales and distribution strategy is to promote our strengths as a provider of a broad range of integrated services. This strategy is implemented by our service centers, independent sales agents and direct sales forces, which distribute and support our various product offerings. For example, we cross-sell our long distance services to our cellular subscribers. In addition, based on the specific demands of our industry and institution clients, we provide customized communications solutions by bundling VPN, IP telephony, Uni-Video broadband video-telephony and Uninet services.

Sales and Distribution

Customer Segmentation: We have two main categories of customers institutional customers, comprised of mainly corporate and government customers, and individual customers. We have set up dedicated direct sales and service departments for institutional customers, both at our headquarters and at our provincial and local branches. We focus on promoting our integrated solutions to these institutional customers. For individual customers, we conduct our sales through our own service centers and the retail outlets of independent sales agents.

Distribution Network: We have a diversified distribution network comprising self-owned sales outlets, agent/distributor sales outlets and direct sales forces. We distribute our services to our individual customers through our self-owned sales outlets as well as other retail outlets. We distribute our services to large customers through our direct sales forces and agents. We have developed a nationwide distribution network of service centers and retail outlets, of which only a small portion are owned by us and the others are owned by independent agents or distributors. As of December 31, 2004, we had a total of approximately 80,300 sales outlets, of which over 5,600 were self-owned. These service centers and retail outlets distribute our cellular, long distance, data and Internet services and provide post-sales services such as customer inquiry, customer complaint and collections. We generally maintain a flat distribution structure, but utilize a multi-level distribution system in some service areas, in which our top-level distributors further distribute to lower level distributors and sales agents. In 2004, we have reduced the levels of such distribution system to control distribution costs. We have also established direct sales and customer service teams at various levels to conduct one-on-one sales to high-usage institutional customers. These direct sales and customer service teams focus is to utilize our cellular, domestic and international long distance, data and Internet services as integrated telecommunications services in order to provide differentiated and comprehensive solutions for our customers. In 2004, we also expanded the use of new distribution channels such as Internet and telephone marketing.

Strategic Cooperation with China Post: Our controlling shareholder, Unicom Group, entered into a strategic cooperation arrangement with China Post in 2001. This arrangement allows us to supplement our existing distribution network with China Post s extensive nationwide network. China Post also provides billing, collection and other services to our customers. The arrangement uses a revenue-based commission structure for most services. We and China Post have also agreed to use each other s services and offer each other preferential treatment. We have entered into provincial-level cooperation agreements with China Post in our service areas.

Customer Service

We provide specialized, differentiated and one-stop services to our customers, based on the customer service resources of Unicom Group. Our customer care and service centers in each service area can be accessed by our customers by dialing a nationwide hotline number 10010 . Our customer service system is a unified platform providing customer services for all of our businesses. This system is based on the paging centers, and also relies on other systems, including operations, billing, account management and network management. This integrated system allows us to provide personalized and diversified services through customer service representatives or automated systems, including service inquiry, billing inquiry, response to customer complaints and suggestions, service initiation and termination, payment reminder services and emergency services, to different types of customers on a 24-hour basis. Our customers can access our customer services through various means, including telephone calls, faxes, e-mails and SMSs. To better serve our customers, we provide such value-added services as 10011 bill inquiry hotline, 10018 club member service hotline, 13010199999 international roaming service hotline, bill payment through commercial banks, free copies of detailed statements, Internet account inquiry, a single rechargeable card for all of our services and mobile service centers in remote areas of China. To better meet market demand, we continue to seek innovation in our customer services, in order to provide more pro-active, comprehensive and targeted customer services.

In addition, we also analyze our customer segments in detail, and tailor our services to the requirements of different customer segments. While we are focused on retention of our retail customers, we pay regular visits and provide one-on-one personalized services to our institutional customers and VIP customers and, through customer clubs , provide high-quality and differentiated services for high-net-worth individual customers and important institutional customers. For mass-market customers, we offer standardized services that aim at enhancing customer experience. In 2004, we launched the Satisfaction at Unicom campaign, which aimed at further improving customer satisfaction and promoting our corporate image.

We emphasize customer service and customer relations management and have taken various measures to improve customer satisfaction. Such measures include establishing and improving the customer service network, standardizing the content, manner and criteria of service and improving training of customer service representatives. We established our customer service workflow using a consistent set of standards in order to timely resolve problems for our customers. We have also strengthened our analysis and research of customer consumption behavior, consumption cycle and satisfaction levels in order to understand their consumption pattern and influence their consumption trend.

Billing and Collection

We are able to leverage our strengths as an integrated service provider to offer integrated billing and collection services. For example, we provide our business customers a single bill covering multiple services for ease of payment. We also integrate the billing systems for different services and distribute unified recharge cards that can be used to recharge various pre-paid services, including pre-paid cellular services, long distance telephony services and Internet dial-up services. Our billing system can distinguish between customers based on the marketing method and service package plans applicable to each customer. These additional functions would allow us to analyze customer data in more detail, thereby improving our ability to analyze the age of our accounts and control bad debts. The following table sets forth our billing and collection methods for each of our business segments:

Business Segment	**Billing**	**Collection**
Post-paid GSM and CDMA services	Centralized at the provincial level and generally by monthly billing.	Subscribers may pre-deposit their service charges with us or commercial banks or China Post that collect payment for us, make payment in person at our service centers or branches of China Post, or through commercial banks.
Pre-paid GSM and CDMA services	Centralized on our nationwide intelligent network	Subscribers can purchase and/or re-chare pre-paid cards through various channels. They can also re-charge cards by telephone.
PSTN long distance telephony services	Through nationwide long distance telephony settlement center and regional billing centers located in Beijing, Shanghai and Guangzhou, which coordinates billing with local settlement centers	Subscribers mainly go to our service centers, commercial banks and branches of China Post for payment.
IP telephony services	Through our nationwide data settlement center and various provincial-level settlement systems	Subscribers mainly go to our service centers, commercial banks and branches of China Post for payment.
Uni-Video services	For each corporate customer, billing is either through the local service centers in the locations of the branches of the customer or centralized at one local service center chosen by the corporate customer. Retail customers purchase pre-paid re-chargeable cards for our services.	Our corporate customers can pay either at the local service centers in the locations of the branches of such customer or at one local service center designated by the customer.
Internet services	Centralized at the provincial level. Billing methods include monthly billing, volume-based billing and billing according to contractual provisions.	Subscribers may go to our service centers, commercial banks, and branches of China Post or use the Internet for payment.
Unicom s Internet Plaza	Customers of the Internet cafes either pay by membership or pay hourly rates.	N/A
Leased lines	Monthly billing in accordance with contractual provisions	Customers mainly pay at our service centers or at commercial banks.

Bad Debt Controls

Cellular Services. Post-paid subscribers must register with us before they can begin using our cellular services. Customer registration allows us to better manage customer credit. If subscribers do not pay their bills on time, we charge a late fee and will either call or send SMSs to the delinquent subscribers to remind them to pay. We generally suspend a post-paid subscriber s account if the account is more than 30 days overdue and terminate the account if it is overdue for more than three months after that. When an account is terminated, we will seek other remedies to collect the overdue payment, including personal visits to the subscriber to collect payments or taking legal actions. At the same time, we encourage our subscribers to pre-deposit service charges with us, to be deducted against charges incurred in the future, or use our pre-paid services. In 2004, we began developing a customer s credit management system at the provincial branch level to enhance verification of the personal information of new subscribers and tighten credit control for new subscribers. We believe these measures will improve our bad debt control.

Domestic and International Long Distance Services. We actively encourage customers to use our pre-paid services. In addition, we perform credit checks on potential customers. For high-volume users, we open telephone banking accounts at commercial banks, set credit limits on such accounts and settle with such customers on a monthly basis.

Internet services. We send e-mails to delinquent customers and use other methods to collect payment from delinquent customers. Accounts for individual customers which are delinquent for 20 days are suspended, and such accounts will be terminated if they are delinquent for more than 40 days. For corporate customers, our actions are based on the credit history of each delinquent customer.

Research and Development

We focus on technology innovation in coordination with the various business departments, in order to provide technical support to the development of our various businesses. In July 2004, our first technology invention patent, the CDMA R-UIM technology for the CDMA cellular communication network , was granted approval by the State Intellectual Properties Bureau of the PRC. Major projects of our research and development efforts in 2004 include:

the tracking and research of the latest technology trends in light of the gradual transition to 3G cellular communications technology and next-generation networks and our position as a provider of integrated services, including participation in the Chinese Next Generation Internet (CNGI) network construction project (led by the National Development and Reform Commission) and the 3G cellular technology testing project (led by the MII);

the investigation into coordinated development of the GSM and CDMA networks and the transition to next-generation networks, including the development and testing of GSM and CDMA dual-mode handset, the testing of GSM and CDMA commercial networks, the testing of the enhanced CDMAIX network technology and other research and development of new technologies; and

the development of new businesses, including CDMA 1X network mobile IP business, support for selected institutional users of our dedicated ATM line services and new applications for institutional customers.

Competition

The Chinese telecommunications market has six basic telecommunications service providers China Telecom, Unicom Group, China Mobile, China Netcom, China Satcom and China Railcom and thousands of value-added service providers. As a relatively new entrant into this competitive landscape, we believe we owe our recent development to the following:

Integrated service offerings and a uniform and advanced telecommunications network We offer integrated cellular, domestic and international long distance, data and Internet services, and have a nationwide, uniform communications network that support voice, data and Internet communications and allow us to provide integrated services to our customers and utilize our network resources in a cost-effective manner.

Advanced technologies CDMA technology offers high bandwidth utilization, better voice quality, high data transmission capabilities, better security, lower handset radio transmitting power, and can cost-effectively and timely transition to 3G cellular telecommunications. We are the only provider for CDMA services in 30 provinces, municipalities and autonomous regions in China, and our CDMA network has been upgraded to CDMA 1X technology, which has higher data transmission capabilities. Our GSM services utilize 2G technology that is widely accepted internationally and we believe our GSM network coverage and voice quality meet international standards. Our uniform network platform (Unione) utilizes ATM+IP technology solutions to offer quality support to our voice, data, Internet, video conference, video telephony and mobile data services.

Unique service offerings Through our advanced integrated network platform and the implementation of our innovative marketing strategies, we introduced Worldwind CDMA and GSM dual-mode cellular services and a series of value-added services such as CDMA 1X data services, Uni-Video services and Ruyi Mailbox services, in order to satisfy the differentiated demand of our various customer segments.

Professional and quality customer service Using the customer service resources of Unicom Group, we have built up a strong brand image in customer service that can be characterized as professional, differentiated and one-stop service.

However, the development of our business is also affected by certain competitive disadvantages, including:

Market position As a relatively new entrant to the market, we are still behind the traditional operators in such areas as market share and branding. Due to our late entry, we still need to strengthen our market position through expenditures to capture mid- to high-end customers. In addition, we are reliant on the dominant operators in terms of interconnection and settlement.

Financial resources Comparing to the dominant operators, our capital scale is relatively small, our debt ratio is relatively high, and our share of the market operating revenue and profit is relatively low.

Network coverage and network number resources While we have made significant improvements in network construction in recent years, network coverage in certain areas still need improvement. In addition, we do not have sufficient network number resources, which has affected the development of our PSTN long distance telephony, IP telephony, data and Internet services.

Cellular Competition

Our main competitor in the cellular communications business is China Mobile. China Mobile continues to have competitive advantages over us in brand name, market share, financial resources and network management experience. To compete against China Mobile, we continue to improve our network coverage and voice quality, enhance network quality, develop value-added services (such as our CDMA 1X wireless data services), improve customer service and customize our package service plans to meet our various subscribers specific needs. We also seek to leverage our position as a fully integrated telecommunications operator to provide one-stop telecommunications solutions for our subscribers. In addition, we seek to compete against China Mobile s GPRS wireless data services by the development of our CDMA 1X wireless data services, which offers such advantages as better voice quality, better security, high data transmission rates and comprehensive value-added wireless data services.

Our cellular services also compete with the wireless local communications services of China Telecom and China Netcom, known as Little Smart , which are based on their fixed line networks and primarily utilize PHS technology. These services were previously offered primarily in small- to medium-sized cities, but have been introduced in most cities nationwide. The Little Smart services reportedly have attracted a substantial subscriber base in China and compete with us mostly in the lower end of the cellular market. Although many cellular users use Little Smart services as a supplement, rather than an alternative, to their existing cellular services, the availability of Little Smart services has reduced the overall usage volume of our cellular services. The main advantage of Little Smart services is their lower tariff rates. However, they generally have limited network coverage and roaming capability.

Since the launch of our CDMA cellular services in 2002, we have pursued a strategy of coordinated development of our GSM and CDMA cellular businesses. While our GSM cellular business focuses on the mass market, with customers who are more price-sensitive and require basic voice and message services, our CDMA services primarily focuses on customers who require voice and data services and place a premium on high-technology, high-speed and high-security services. Accordingly, usage fees and package service plans for our CDMA cellular services are generally higher than those for our GSM cellular services. In 2004, most of our CDMA new subscribers were users migrating from the GSM services of our competitor, first-time cellular users, and users who previously subscribed to our CDMA services.

Long Distance Telephony Competition

The Chinese government restructured the fixed line incumbent China Telecom in 2002. Pursuant to the restructuring, the telecommunications assets of the former China Telecom in 10 northern provinces in China were split off in May 2002 and merged with CNCL and Jitong to form China Netcom. China Telecom retained the telecommunications assets in the remaining 21 provinces and the brand name of China Telecom . Currently, both China Netcom and China Telecom provide fixed line telecommunications services. In addition, China Railcom is also licensed to provide public switched long distance services in China and launched its long distance services in China in 2001.

China Telecom and China Netcom are the dominant providers and our primary competitors in the public switched long distance business in their respective service areas. They have advantages over us in their respective service areas in brand name, market share, financial resources, service area coverage, extensive access networks and experience in fixed line telecommunications business. However, the separation of China Telecom into two companies along geographic lines weakened the competitiveness of the resulting entities on a nationwide basis.

We started to provide public switched long distance telephony services in 2000 and reached a market share of 12.7% in terms of total outgoing long distance call minutes in 2004. Since our network has been constructed recently and is equipped with the latest technology and advanced features, it enables us to offer a variety of high-quality services. Our long distance telephony services are also supported by a centralized billing system. Our services are hindered by our lack of fixed line telephone number resources.

Our IP telephony services currently face intense competition from China Telecom, China Netcom, China Mobile, China Railcom and China Satcom. Currently, China Telecom and China Netcom are the market leaders in their respective service areas. Since the MII deregulated the tariffs of this market in 2001, competition in this market has been intensifying.

Data and Internet Competition

China Telecom, China Netcom and China Railcom are our major competitors in the data services business in their respective service areas. Other competitors include China Satcom. While China Telecom, China Netcom, China Railcom, China Mobile, China Satcom and we are the only Internet backbone operators in China, there are many retail Internet service providers throughout China. China Telecom and China Netcom have leading positions in the Internet access market and are the largest wholesale Internet service providers in their respective service areas. Our data and Internet networks have nationwide access, which offers convenience and flexibility to our institutional customers, whereas the respective networks of China Telecom and China Netcom only extend to their respective service areas. We have obtained approval to operate and franchise a nationwide chain of Internet cafes and, to date, have opened a number of upscale Internet cafes in several cities.

The advanced features and design of our backbone network allow us to provide nationwide high quality virtual private network services, which are specifically tailored to the high-usage corporate customers and retail Internet service providers that we target. We are also building advanced metropolitan area networks and integrated access networks that allow us to connect to key commercial buildings throughout China. We also continue to cooperate with medium- to small-sized Internet service providers and other companies that have broadband access to concentrated residential areas to expand our broadband services.

Trademarks

We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the Unicom trademark in English and the trademark bearing the Unicom logo. Unicom Group has also applied and became the registered proprietor of the trademark of the word Unicom in Chinese. Unicom Group has granted us the right to use these trademarks on a royalty-free basis, and to license to us any trademark that it registers in China in the future which incorporates the word Unicom.

Regulatory and Related Matters

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the MII. The State Council, the National Development and Reform Commission (the former State Development Planning Commission), the Ministry of Commerce (formerly, the Ministry of Foreign Trade and Economic Cooperation) and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

The MII, under the supervision of the State Council, is responsible for, among other things:

- formulating and enforcing industry policies and regulations, as well as technical standards,
- granting telecommunications service licenses,
- supervising the operations and quality of service of telecommunications service providers,
- allocating and administering telecommunications resources such as spectrum and number resources,
- together with other relevant regulatory authorities, formulating tariff standards for telecommunications services,
- formulating interconnection and settlement arrangements between telecommunications networks, and
- maintaining fair and orderly market competition among service providers.

The MII has established a Telecommunications Administration Bureau in each province, which is mainly responsible for enforcement of telecommunications policies and regulations in that province.

The MII is in the process of drafting a telecommunications law that, once adopted by the National People s Congress, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective.

Telecommunications Regulations

The State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the existing rules and policies for the telecommunications industry. They provide the current primary regulatory framework for China s telecommunications industry in the interim period prior to the adoption of the proposed telecommunications law.

The Telecommunications Regulations are intended to develop a transparent and fair regulatory environment to foster orderly competition and encourage development in the telecommunications industry. The Telecommunications Regulations address all key aspects of the telecommunications industry, including entry into the industry, scope of business, tariff setting, interconnection arrangements, quality of services, technology standards and allocation of telecommunications resources.

Entry into the Industry

The Telecommunications Regulations adopt the existing regulatory distinction between basic and value added telecommunication services. An addendum to the Telecommunications Regulations sub-categorizes basic and value added telecommunication services. In February 2003, the MII revised the addendum to the Telecommunications Regulations; and the revised addendum took effect in April 2003. Basic telecommunications services include, among others, fixed line local and domestic long distance telephony services, international telecommunications services, IP telephony services, mobile voice and data services, Internet and other public data transmission services, lease or sale of network elements, and paging services. Value added telecommunications services include, among others, e-mail, voice mail, electronic data interchange, Internet access, Internet content and video conferencing services. Providers of any basic telecommunications services as well as providers of value added services in two or more provinces autonomous regions and municipalities in China must apply for licenses from the MII. Licenses for basic telecommunications services will be granted through a tendering process.

After its accession to the WTO in December 2001, China promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, effective on January 1, 2002, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in China to foreign operators. However, the presence or absence of foreign investments in an applicant for telecommunications licenses will presumably bear no direct relation to the decision on whether to issue licenses, in as much as the issuance of new licenses is governed by a separate set of rules and regulations. The specific market-opening commitments China made to the WTO regarding fixed line services, mobile services and value-added telecommunication services are as follows.

For fixed line services:

(1) Within three years after accession: foreign service providers will be permitted to establish joint venture enterprises and provide services in and between the cities of Shanghai, Guangzhou and Beijing; foreign ownership in such joint ventures shall be no more than 25%;

(2) Within five years after accession: the services areas will be expanded to include services in and between an additional 14 cities of Chengdu, Chongqing, Dalian, Fuzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shenzhou, Xiamen, Xi an, Taiyuan and Wuhan, or, the additional 14 cities; foreign ownership shall be no more than 35%; and

(3) Within six years after accession: there will be no geographic restriction and foreign ownership shall be no more than 49%.

For mobile voice and data services:

(1) Upon accession: foreign service providers will be permitted to establish joint venture enterprises and provide services in and between the cities of Shanghai, Guangzhou and Beijing; foreign ownership in such joint ventures shall be no more than 25%;

(2) Within one year after accession: the services areas will be expanded to include services in and between the additional 14 cities; foreign ownership shall be no more than 35%;

(3) Within three years after accession: foreign ownership shall be no more than 49%; and

(4) Within five years after accession: there will be no geographic restriction and the foreign ownership shall be no more than 49%.

For value-added telecommunication services:

(1) Upon accession: foreign service providers will be permitted to establish joint venture enterprises and provide services in and between the cities of Shanghai, Guangzhou and Beijing; foreign ownership in such joint ventures shall be no more than 30%;

(2) Within one year after accession: the services areas will be expanded to include services in and between the additional 14 cities; foreign ownership shall be no more than 49%; and

(3) Within two years after accession: there will be no geographic restriction, foreign ownership shall be no more than 50%.

The MII promulgated Measures on the Administration of Telecommunication Business Licenses, which took effect on January 1, 2002. Those rules apply to the application for, examination and approval of, telecommunications business licenses in China.

Spectrum and Network Number Resources

The MII allocates all telecommunications-related frequencies, including those used in cellular, paging and microwave operations. The 800 MHZ, 900 MHZ and 1,800 MHZ frequency bands have been reserved for mobile cellular applications and parts of the 150 MHZ and 280 MHZ frequency bands have been reserved for paging applications. The frequency assigned to a licensee may not be leased or transferred without obtaining the approval of the MII.

Since July 1, 2002, the standard spectrum usage fees for GSM networks and CDMA networks has been charged at the annual rate of RMB15 million per MHz of frequency per year (upward and downward frequencies are charged separately) progressively over a period of three years and a period of five years, respectively. The current allocation of spectrum usage fees between Unicom Group and us based on the number of subscribers remains unchanged.

The MII is also responsible for the administration of network number resources within China, including cellular network numbers and subscriber numbers. In January 2003, it issued the Administrative Rules for Telecommunications Network Numbers, which took effect on March 1, 2003. According to these rules, the telecommunications network number resources are properties of the Chinese government, and the use of number resources by any telecommunications operator is subject to the approval of MII. Users of number resources, including us, are required to pay a usage fee to the Chinese government. The rules also provide for procedures for application for the use, upgrade and adjustment of number resources by telecommunications operators.

In December 2004, the MII, the Ministry of Finance and the National Development and Reform Commission jointly issued the Provisional Administrative Measures with respect to the Collection of the Usage Fee of Telecommunications Network Number Resources, under which telecommunications companies are required to pay a usage fee to the PRC government by the 10th day of the first month of each quarter starting from 2005. Under these provisional measures, mobile telecommunications companies are required to pay an annual usage fee of RMB12 million for each network number. In addition, we are also required to pay usage fees for certain other network numbers totaling approximately RMB6 million a year. We are required to start paying usage fees in 2005.

Tariff Setting and Price Controls

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the MII, the National Development and Reform Commission (the former State Development and Planning Commission), and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities. Under the Telecommunications Regulations, telecommunications tariffs are categorized into State-fixed tariffs, State-guidance tariffs and market-based tariffs. For example, there are State-guidance tariffs for cellular services, fixed line telephony services and leased lines services that are set jointly by the MII and the National Development and Reform Commission. Tariffs for telecommunications services where adequate competition has already developed may be set by the service providers as market-based tariffs. In 1997, the Chinese government granted us preferential treatment by allowing us to vary our cellular tariffs by up to 10% from the state-guidance rates.

The government is required to hold public hearings before setting or changing important State-tariff rates, which are attended by telecommunication operators, consumers and others. Operators are required to provide complete and adequate cost data and other materials for those hearings.

In December 2000, the MII, the former State Development Planning Commission and the Ministry of Finance jointly issued a tariff adjustment circular, which provides for tariff adjustments for a wide range of telecommunications services. Effective from February 21, 2001, we have adopted these government tariff adjustments.

In June 2003, the Ministry of Finance and the MII jointly issued a circular to revoke certain fees including one-time installation fees charged to the fixed line telephone users and one-time activation fees charged to the cellular subscribers.

In June 2004, the MII and the National Development and Reform Commission jointly issued a notice aimed at further strengthening the regulatory oversight of telecommunications tariffs. The notice requires telecommunications services providers to strengthen their internal control and management of tariff setting activities. Specifically, the notice requires services providers to strictly comply with the relevant government regulation relating to the procedures for the approval and registration of telecommunications tariffs.

Interconnection Arrangements

In 1999, the MII issued provisional regulations on interconnection and settlement arrangements. These regulations contain specific provisions regarding, among other things, revenue sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. The Telecommunication Regulations reaffirmed the obligations of dominant telecommunications operators in China to provide interconnection with other operators. The MII adjusted the interconnection revenue sharing and settlement arrangements, effective from March 21, 2001, and further adjusted them on October 28, 2003. We have entered into interconnection and settlement agreements with China Telecom, China Netcom, China Mobile and China Railcom that implement the regulatory requirements.

The following table sets forth our interconnection revenue sharing and settlement arrangements with fixed line operators and China Mobile for local calls after the regulatory adjustment in 2003.

Network from which calls originated	**Network at which calls terminated**	**Settlement Arrangement (under 2003 regulations)**
Unicom s cellular network	Fixed line operators public fixed line network	(1) Unicom collects the local cellular usage charge from its subscribers (2) Unicom pays RMB0.06 per minute to fixed line operators
Fixed line operators public fixed line network	Unicom s cellular network	No revenue sharing or settlement
Unicom s cellular network	China Mobile s cellular network	(1) Each of Unicom and China Mobile collects the cellular usage charge from its subscribers (2) Unicom pays RMB0.06 per minute to China Mobile
China Mobile s cellular network	Unicom s cellular network	(1) Each of Unicom and China Mobile collects the cellular usage charge from its subscribers (2) China Mobile pays RMB0.06 per minute to Unicom

The following table sets forth our interconnection revenue sharing and settlement arrangement with fixed line operators and China Mobile for domestic long distance calls after the regulatory adjustment in 2003.

Network from which calls originated	**Network at which calls terminated**	**Settlement Arrangement (under 2003 regulations)**
Unicom s cellular network at area A	Fixed line operators public fixed line network at area B, if through the long distance network of such fixed line operator	(1) Unicom collects the domestic long distance tariff and local call tariff from its subscribers (2) Unicom keeps RMB0.06 per minute and pays the rest of the domestic long distance tariff to fixed line operators
Unicom s cellular network at area A	Fixed line operators public fixed line network at area B, if through the long distance network of Unicom	(1) Unicom collects the domestic long distance tariff and local call tariff from its subscribers (2) Unicom pays RMB0.06 per minute to fixed line operators, and keeps the rest of the domestic long distance tariff
Fixed line operators public fixed line network at area A	Unicom s cellular network at area B, if through the long distance network of Unicom	(1) Fixed line operators collect the domestic long distance tariff from their subscribers (2) Fixed line operators keep RMB0.06 per minute and pay the rest to Unicom
Fixed line operators public fixed line network at area A	Unicom s cellular network at area B, if through the long distance network of such fixed line operator	(1) Fixed line operators collect the domestic long distance tariff from their subscribers. (2) Fixed line operators pay RMB0.06 per minute to Unicom and keep the rest
Fixed line operators public fixed line network at area A	Fixed line operators public fixed line network at area B, if through the long distance network of Unicom	(1) Fixed line operators on the originating end collect the domestic long distance tariff from their subscribers (2) Fixed line operators keep RMB0.06 per minute and pay the rest to Unicom (3) Unicom then pays RMB0.06 per minute to fixed line operators on the receiving end
Unicom s cellular network at area A	China Mobile s cellular network at area B, if through the long distance network of China Mobile	(1) Unicom collects the domestic long distance tariff and local call tariff from its subscribers (2) Unicom keeps RMB0.06 per minute and pays the rest of the domestic long distance tariff to China Mobile
China Mobile s cellular network at area A	Unicom s cellular network at area B, if through the long distance network of Unicom	(1) China Mobile collects the domestic long distance tariff and local call tariff from its subscribers (2) China Mobile keeps RMB0.06 per minute and pays the rest of the domestic long distance tariff to Unicom

The following table sets forth our interconnection revenue sharing and settlement arrangement with fixed line operators for international long distance calls through their international gateways after the regulatory adjustment in 2003.

Type of calls	Settlement Arrangements (under 2003 regulations)
Outgoing calls from Unicom s cellular network, if through the international long distance network of fixed line operators	(1) Unicom collects the international long distance tariff and local call tariff from its subscribers (2) Unicom keeps RMB0.06 or RMB0.54 per minute (depending on whether through Unicom s domestic long distance network) and pays the rest of the international long distance tariff to fixed line operators
Incoming calls to Unicom s cellular network, if through the international long distance network of fixed line operators	(1) Unicom receives RMB0.06 or RMB0.54 per minute from fixed line operators (depending on whether through Unicom s domestic long distance network)

The following table sets forth our interconnection revenue sharing and settlement arrangements with other operators for IP telephony long distance calls through our network after the regulating adjustment in 2003.

Network from which calls originated	Network at which calls terminated	Settlement Arrangement (under 2003 regulations)
Unicom s cellular network at area A	Other operators public telecommunications network at area B (if through Unicom s IP telephony network)	(1) Unicom collects the IP telephony long distance charges and local call tariff from its subscribers (2) Unicom pays RMB0.06 per minute to other operators on the receiving end
Other operators public telecommunications network at area A	Other operators public telecommunications network at area B (if through Unicom s IP telephony network)	(1) Unicom collects the IP telephony long distance charges from its subscribers (2) Unicom pays RMB0.06 per minute to other operators on the receiving end (3) No settlement between Unicom and other operators on the originating end

Technical Standards

The MII sets industry technical standards for the Chinese telecommunications industry. Most of the standards set by the MII conform to the standards recommended by the International Telecommunications Union and other international telecommunications standards organizations. In cases where the MII has not set certain industry technical standards, we set our own enterprise technical standards. The MII also requires all network operators in China to purchase only telecommunications equipment certified by the MII, including cellular and paging equipment, radio equipment and interconnection terminal equipment.

Universal Services

Telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the Chinese government, and the MII has the authority to delineate the scope of its universal service obligations. The MII may also select universal service providers through a tendering process. The MII, together with the finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. These rules have not yet been promulgated and there are currently no regulatory requirements relating to the provision of universal services in China.

The MII has recently required major Chinese telecommunication service providers, including Unicom Group, to participate a project to provide telecommunications services in a number of remote villages in certain designated provinces in China as transitional measures prior to the formalization of a universal service obligation framework. The MII and other relevant government authorities are still in the process of finalizing the detailed regulations relating to the provision of such universal services. Such regulations, if promulgated, may require us to incur significant relevant expenses to fulfill our universal service obligations and therefore could materially adversely affect our financial condition and results of operations.

See D. Risk Factors Risks Relating to the Overall Telecommunications Industry in China The Chinese government may require us, along with other telecommunication service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services. Under Item 3.

Capital Investment

On July 16, 2004, the State Council promulgated, effective immediately, the Decision on Reform of Investment System, or the Investment Reform Decision, which significantly modified the government approval process for major investment projects in China. The Investment Reform Decision eliminated the government approval requirements for investment projects that do not involve direct government funding unless the investment projects are in the restricted sectors specified in the annually adjusted catalogue released by the State Council. The 2004 catalogue, which was attached as an annex to the Investment Reform Decision, sets forth approval requirements for individual investment projects in restricted sectors. Within the telecommunications sector, the investment projects that require the approval of the National Development and Reform Commission include:

- domestic backbone transmission networks (including broadcasting and television networks);
- international telecommunications transmission circuits;
- international gateways;
- international telecommunications facilities for dedicated telecommunications networks; and
- other telecommunications infrastructure projects involving information security.

Others

As a company with substantially all of our operations in China, we, along with our controlling shareholder, Unicom Group, are subject to various regulations of the PRC government in addition to those regulating the telecommunications industry. PRC regulatory authorities, such as the State Bureau of Taxation, National Audit Office, State Administration of Industry and Commerce and local price bureaus, exercise extensive control over various aspects of our businesses and conduct various regular inspections, examinations and/or audits on us and Unicom Group. As required by the relevant PRC laws and regulations, Unicom Group, as one of the key State-owned enterprises under the direct supervision of the SASAC, is also subject to routine audits by the National Audit Office, or the NAO, including the senior management departure audit which involves a review by the NAO of the economic responsibilities of a departing senior management member of Unicom Group.

In 2004, the NAO conducted a senior management departure audit of Unicom Group after the resignation of Mr. Yang Xian Zu, Unicom Group s former Chairman, in 2003. We understand that the results of that audit had no material adverse effect on our company.

As a result of the resignation of Mr. Wang Jianzhou, Unicom Group s former Chairman, in 2004, the NAO is currently conducting another senior management departure audit of Unicom Group. As this NAO audit has not yet been completed, we cannot predict at this time the results of this audit or the extent of its possible effect on our company.

In addition, as our controlling shareholder, Unicom Group under the direct supervision of SASAC, SASAC has an indirect influence over us. In particular, SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management; SASAC may also request Unicom Group to remove our directors and senior management in accordance with relevant procedures provided by law and our articles of association.

C. Organizational Structure

We are incorporated in Hong Kong and are 77.37% indirectly owned by the Unicom Group and 22.63% owned by public shareholders as of May 31, 2005. See A. History and Development of the Company under Item 4. Set forth below are details of our significant subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest
China Unicom Corporation Limited	China	100%
Unicom New World Telecommunications Corporation Limited *	China	100%
China Unicom International Limited	Hong Kong SAR	100%
China Unicom (Macau) Company Limited	Macau SAR	100%

* Held through Unicom New World (BVI) Limited, our direct wholly-owned subsidiary.

D. ***Properties***

Our principal executive offices are located in Hong Kong. We also maintain executive offices in Beijing. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. For some of those properties we own or operate on, we have not obtained land use rights certificates or building ownership certificates. In some cases, we have not entered into formal lease agreements with the lessors or the lessors do not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time. Our controlling shareholder, Unicom Group, has agreed to indemnify us against any loss or damages incurred by us that are caused by or arising from any challenge of, or interference with, our right to use these properties.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis together with the selected financial data set forth in Item 3 and the consolidated financial statements included in this annual report. The financial statements have been prepared in accordance with HK GAAP, which differs in certain respects from US GAAP. Note 40 to the consolidated financial statements summarizes the nature and effects of significant differences between HK GAAP and US GAAP as they relate to our financial statements and provides a reconciliation to US GAAP of our net income and shareholders equity. In addition, Note 40 to our consolidated financial statements includes our condensed consolidated financial information prepared and presented in accordance with US GAAP for the relevant periods. Our consolidated financial statements present, and the discussion and analysis under this Item 5 pertain to, our consolidated financial position and results of operations as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004. On December 31, 2002 and 2003, we completed the acquisition of Unicom New Century from Unicom Group, and the acquisition of Unicom New World from Unicom Group and sale of Guoxin Paging to Unicom Group, respectively.

Our consolidated financial statements as of and for the year ended December 31, 2004 reflect the results of operations of both Unicom New Century (which was merged into CUCL in July 2004) and Unicom New World, but do not include the results of operations of Guoxin Paging. Our consolidated financial statements for the year ended December 31, 2003 reflect the results of operations of Unicom New Century and Guoxin Paging but do not include the results of operations of Unicom New World. Our consolidated year ended December 31, 2002 do not include the results of operations of Unicom New Century. In addition, in September 2004, we completed the acquisition of Unicom International from Unicom Group. Accordingly, the operating results of Unicom International for the period from the effective date of the acquisition to December 31, 2004 have been included in our consolidated statement of income for the year ended December 31, 2004. See —Acquisitions of Unicom New Century, Unicom New World and Unicom International and the Sale of Guoxin Paging below.

Overview

We are an integrated provider of telecommunications services in China and offer a wide range of telecommunications services, including the following, which also constitute our major operating segments:

- GSM cellular service in 21 provinces, 5 autonomous regions and 4 municipalities;
- CDMA cellular service in 21 provinces, 5 autonomous regions and 4 municipalities;
- Public switched international and domestic long distance service nationwide in China; and

IP telephony based international and domestic long distance and data and Internet services nationwide in China.

The table below sets forth operating revenue from our major businesses and the respective percentage of our total operating revenue in 2002, 2003 and 2004.

	For the year ended December 31,					
	2002		2003		2004	
	RMB in millions	% of Total Operating Revenue	RMB in millions	% of Total Operating Revenue	RMB in millions	% of Total Operating Revenue
Total operating revenue	40,577	100.0%	67,636	100.0%	79,332	100.0%
Total service revenue	38,333	94.5%	64,040	94.7%	76,310	96.2%
GSM	27,388	67.5%	40,304	59.6%	46,579	58.8%
CDMA	3,225	7.9%	16,623	24.6%	24,220	30.5%
Long distance revenue	2,766	6.8%	2,273	3.4%	1,848	2.3%
Data and Internet revenue	2,793	6.9%	3,437	5.1%	3,663	4.6%
Paging	2,161	5.4%	1,403	2.0%		
Sales from telecommunications products	2,244	5.5%	3,596	5.3%	3,022	3.8%

Our service revenue comes primarily from the following:

Usage fees for our GSM, CDMA, long distance and data and Internet services, including, for our cellular subscribers, roaming-out fees for calls made by them outside their local service areas. We recognize usage fee revenue when the service is rendered.

Monthly fees, of fixed amounts, charged to certain of our GSM, CDMA, data and Internet subscribers for access to the relevant service. We recognize monthly fee revenue in the month during which the services are rendered.

Interconnection revenue from other telecommunications operators, including Unicom Group, for calls made from their networks to our networks and roaming-in fees for calls made by cellular subscribers of other operators using our cellular networks. We recognize interconnection revenue when the relevant calls are made by subscribers.

Leased line rental revenue from leases of transmission lines on our networks to Unicom Group, business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

Other revenue primarily from valued-added services, such as short message services. We recognize revenue for valued-added services when the services are rendered.

Sales of telecommunication calling cards, representing pre-paid service fees, are recorded as advances from customers and recognized as revenue when the service is rendered upon actual use of the cards.

Along with the rapid growth of China s telecommunications industry, particularly in the cellular communications sector, our total operating revenue in 2004 increased by 17.3% from 2003. This increase was primarily the result of the continued growth in revenue of our cellular business, including the strong growth of our CDMA service since its introduction in 2002, as well as the effect of including revenue attributable to Unicom New World, which we acquired effective December 31, 2003. We believe that the growth of our cellular businesses has resulted in developments in our revenue structure that reflect our strategy of targeting high growth, high margin areas of China s telecommunications industry. Service revenue from our cellular businesses as a percentage of total operating revenue increased from 84.2% in 2003 to 89.3% in 2004. Service revenue from long distance, data and Internet businesses declined to 6.9% of operating revenue in 2004, from 8.5% of our total operating revenue in 2003. We aim to further leverage our position as an integrated telecommunications operator in order to continue to drive the growth of our GSM and CDMA cellular businesses and long distance, data and Internet businesses.

The following table sets forth our major operating expense items and operating income, both in terms of amount and as a percentage of total operating revenue in 2002, 2003 and 2004.

	For the year ended December 31,					
	2002		2003		2004	
	RMB in millions	% of Total Operating Revenue	RMB in millions	% of Total Operating Revenue	RMB in millions	% of Total Operating Revenue
Total Operating Revenue	40,577	100.0%	67,636	100.0%	79,332	100.0%
Total Operating Expenses	33,253	82.0%	59,122	87.4%	71,376	90.0%
Leased line and network capacities	1,583	3.9%	4,320	6.4%	7,398	9.3%
Interconnection charges	3,230	8.0%	5,921	8.8%	7,517	9.5%
Depreciation and amortization	11,256	27.7%	16,385	24.2%	19,063	24.0%
Personnel	3,335	8.2%	4,575	6.8%	4,526	5.7%
Selling and marketing	5,981	14.7%	15,157	22.4%	18,945	23.9%
General, administrative and other expenses	5,632	13.9%	9,112	13.5%	10,448	13.2%
Cost of telecommunications products sold	2,236	5.5%	3,652	5.4%	3,479	4.4%
Operating income	7,324	18.0%	8,514	12.5%	7,956	10.0%

Our major operating expenses include the following:

Leased line and network capacities charges, representing lease expenses for transmission capacity from other operators and CDMA network capacities from Unicom Group;

Interconnection expenses, representing amounts paid to other operators, including Unicom Group, for calls from our networks to their networks and roaming-out fees paid to other operators, including Unicom Group, for calls made by our subscribers roaming in their networks;

Depreciation and amortization expenses, mainly relating to our property, plant and equipment and other assets;

Personnel expenses, representing staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes and housing benefits;

Selling and marketing expenses, including commissions, promotion and advertising expenses and, beginning in 2002, amortization of deferred customer acquisition costs of certain CDMA contractual subscribers;

General, administrative and other expenses, primarily including operating lease expenses, repair and maintenance costs, provision for doubtful debts and provisions for impairment in the value of property, plant and equipment. Other components of general, administrative and other expenses include utilities, general office expenses and travel expenses; and

Costs of telecommunications products sold.

While we continue to aim to strengthen management, integrate our businesses and control costs to achieve greater overall efficiency, as a percentage of total operating revenue, total operating expenses in 2004 were 90.0% compared to 87.4% in 2003. This percentage increase was primarily due to increases in expenses for leased line and network capacities as well as interconnection charges.

For the first three months of 2005, our unaudited total revenue was RMB20.86 billion, including RMB12.07 billion from GSM cellular services, RMB6.65 billion from CDMA cellular services, RMB0.44 billion from long distance services, RMB0.83 billion from data and Internet services and RMB0.87 billion from the sale of telecommunications products. The financial data disclosed above was prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (HKFRSs), which became effective from January 1, 2005. Note 3 Principle accounting policy (a) Basis of presentation Recently issued accounting standards to our consolidated financial statements summarizes the significant differences between the HKFRSs adopted for the three months ended March 31, 2005 and HK GAAP for year ended December 31, 2002, 2003 and 2004.

Acquisitions of Unicom New Century, Unicom New World and Unicom International and the Sale of Guoxin Paging

In September 2004, we completed the acquisition from Unicom Group of Unicom International, a limited liability company established in Hong Kong engaging in voice wholesale business, telephone cards business, line leasing services, managed bandwidth services and mobile virtual network services in Hong Kong and the United States. The total purchase price was HK$37,465,996 (approximately RMB39.74 million including direct costs of acquisition), payable in cash.

In December 2003, we acquired from Unicom Group the GSM cellular assets and businesses and CDMA businesses of Unicom New World in the following 9 provinces and autonomous regions in China: Shanxi, Hunan, Hainan, Yunnan, Gansu and Qinghai provinces and Inner Mongolia, Ningxia Hui and Tibet autonomous regions. The total purchase price was HK$3,014,886,000 (approximately RMB3.2 billion), payable in cash. On the same date, we also completed the sale of the entire equity interests of Guoxin Paging to Unicom Group for a total sale price of HK$2,590,917,656 (approximately RMB2.75 billion), and such proceeds were applied to our general working capital.

Under HK GAAP, we have adopted the purchase method to account for our acquisitions from Unicom Group of Unicom New World, which became effective on December 31, 2003, and Unicom International, which became effective in September 2004. Under the purchase method, in accordance with HK GAAP, our consolidated financial statements incorporate the results of operations of Unicom New World and Unicom International only from the effective dates of the respective acquisitions. Accordingly, the results of operations of Unicom International for the period from the effective date of the acquisition to December 31, 2004 have been included in our consolidated statement of income for the year ended December 31, 2004. Our consolidated balance sheet as of December 31, 2004 includes the financial position of Unicom International. Since the effective date of the Unicom New World acquisition was December 31, 2003, our consolidated financial statements of income for the years ended December 31, 2003 and 2002 included in this annual report do not include the results of operations of Unicom New World. Our consolidated balance sheet as of December 31, 2003 includes the financial position of Unicom New World. The difference between the cost of the acquisition and the fair value of the identifiable assets and liabilities acquired was recognized as goodwill, which is amortized on a straight line basis over its beneficial life.

Under US GAAP, the acquisitions of Unicom International and Unicom New World is accounted for as a transfer of businesses under common control. Under this method, the acquired assets and liabilities are accounted for at their historical cost under US GAAP and the consolidated financial statements prepared under US GAAP for all periods presented are retroactively restated as if Unicom International and Unicom New World had always been part of our company since inception. This method is reflected in the significant differences between HK GAAP and US GAAP provided in Note 40 to our consolidated financial statements.

Under HK GAAP, the sale of Guoxin Paging by us to the Unicom Group, which became effective on December 31, 2003, has been accounted for as a sale of discontinued operation. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of December 31, 2003 was recorded as the loss on sale of discontinued operation in our consolidated income statement for the year ended December 31, 2003. The operating results of Guoxin Paging from January 1, 2003 to the effective date of the sale of Guoxin Paging were included in our consolidated income statement for the year ended December 31, 2003.

Under US GAAP, the sale of Guoxin Paging to Unicom Group is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value. In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separately from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as Discontinued operation Loss from discontinued operation under US GAAP.

On December 31, 2002, we completed the acquisition of Unicom New Century from Unicom Group. Similar to the treatment of the acquisition of Unicom New World described above, we adopted the purchase method under HK GAAP, under which the results of operations of Unicom New Century were included in our consolidated financial statements for the fiscal years ended December 31, 2004 and 2003 only. On July 30, 2004, Unicom New Century was merged into CUCL and legally dissolved upon the completion of such merger.

The acquisitions of Unicom New Century and Unicom New World and the sale of Guoxin Paging have had a material impact on our overall results of operations. In particular, our financial results in 2004 were significantly affected by the inclusion of the results of operations for Unicom New World we acquired effective December 31, 2003. By comparison, our financial results in 2003 did not include the results of operations of Unicom New World. See – Operating Results – Year Ended December 31, 2004 Compared to Year Ended December 31, 2003 below. These acquisitions have, among other things, significantly expanded the size of the telecommunications markets we serve and increased the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses have also increased significantly.

The following are certain summary consolidated results of operation information for the years ended December 31, 2002, 2003 and 2004 and financial position information as of December 31, 2003 and 2004 for us and Unicom International, as separate entities and on a combined basis after the acquisition of each entity, prepared under US GAAP. The financial information prepared under US GAAP reflect retroactive restatement for the acquisition and reconciliation for other differences from HK GAAP to US GAAP.

	The Group (before the acquisition of Unicom International)	Unicom International	Elimination	The Group (after the acquisition of Unicom International)
	RMB 000	RMB 000	RMB 000	RMB 000
For the year ended December 31, 2002				
Results of operations:				
Operating revenue (Turnover)	50,415,248	24,322	(18,497)	50,421,073
Net income from continuing operations	5,492,804	7,351		5,500,155
Net loss from discontinued operation	(422,213)			(422,213)
Cumulative Effect to change in accounting policy	(42,175)			(42,175)
Net income	5,028,416	7,351		5,035,767
Basic earnings per share (RMB)	0.401			0.401
As of/for the year ended December 31, 2003				
Results of operations:				
Operating revenue (Turnover)	71,958,253	46,265	(24,208)	71,980,310
Net income from continuing operations	6,070,263	7,698		6,077,961
Net loss from discontinued operation	(1,341,840)			(1,341,840)
Net income	4,728,423	7,698		4,736,121
Basic earnings per share (RMB)	0.377			0.377
Financial position:				
Non-current assets	128,169,420	60,621		128,230,041
Current assets	22,243,284	97,186	(93,115)	22,247,355
Total assets	150,412,704	157,807	(93,115)	150,477,396
Non-current liabilities	40,593,548			40,593,548
Current liabilities	43,906,653	124,166	(93,115)	43,937,704
Total liabilities	84,500,201	124,166	(93,115)	84,531,252
Net assets	65,912,503	33,641		65,946,144
As of/for the year ended December 31, 2004				
Results of operations:				
Operating revenue (Turnover)	79,361,238	135,688	(108,612)	79,388,314
Net income	4,703,312	8,988	387	4,712,687
Basic earnings per share (RMB)	0.374			0.375
Financial position:				
Non-current assets	128,697,817	64,865		128,762,682
Current assets	17,865,977	148,991	(162,776)	17,852,192
Total assets	146,563,794	213,856	(162,776)	146,614,874

Non-current liabilities	31,045,613	3,262		31,048,875
Current liabilities	46,118,868	167,972	(163,163)	46,123,677
Total liabilities	77,164,481	171,234	(163,163)	77,172,552
Net assets	69,399,313	42,622	387	69,442,322

Critical Accounting Policies

The preparation of our financial statements and this annual report requires us to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, including contingent assets and liabilities, as at the relevant dates and revenue and expenses for the relevant periods. We have identified the accounting policies and estimates below as critical to our business operations and an understanding of our results of operations and financial position. The impact and any associated risks related to these policies on our business operations are discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a discussion of the application of these and other accounting policies, see Notes 2 and 3 to our consolidated financial statements included in this annual report. There can be no assurance that actual results will not differ from those estimates and assumptions.

Deferral of CDMA Customer Acquisition Costs

We have been operating the CDMA business since the beginning of 2002. In order to accelerate the development of the CDMA business and subscriber growth, we began to offer certain promotional packages in the second half of 2002. As part of the contractual arrangements with certain CDMA contractual subscribers under these special promotional packages, CDMA handsets were provided to the subscribers for their use at no additional charge during the specified contract periods, which range from 6 months to 2 years. In return, the subscribers are required to incur a minimum amount of service fees during the contract period. If the contractual subscribers can fulfill the minimum contract spending amounts by the end of the contract period, they will not be obliged to repay the remaining costs of the CDMA handsets given for their use. In addition, to secure contract performance, these subscribers are required under their contracts to (1) prepay certain non-refundable amounts of service fees or deposits, (2) maintain a bank deposit in one of the designated commercial banks to secure their minimum contract amounts, or (3) provide a guarantor who will compensate us for any loss in the event of the subscriber s non-performance of related contractual obligations.

We consider the costs of the CDMA handsets provided to contractual subscribers under these promotional packages as part of the customer acquisition costs for the development of these new CDMA contractual subscribers. Such customer acquisition costs are deferred, to the extent recoverable, and amortized over the contractual periods to match with the minimum contract revenue.

We determined our accounting policy of deferred customer acquisition costs of certain CDMA subscribers after a careful evaluation of our specific facts and circumstances, and believe that the capitalization of such costs appropriately matches the future contractual revenues due to (1) the historically high ARPUs and low churn, default or bad debt rates of these subscribers; (2) our established procedures and the relative low cost of enforcement of contracts in default; and (3) the existence of specified contract periods with minimum contract spending amounts and built-in contractual safeguarding measures such as non-refundable prepayments, bank deposits, and guarantees received, as well as penalty clauses imposed on subscribers.

Therefore, we believe that the deferred customer acquisition costs are recoverable from future revenue to be derived from these promotional packages, and the capitalization and amortization of these customer acquisition costs to match with future revenue is an appropriate accounting policy. Furthermore, we continuously assess and evaluate the recoverability of these deferred customer acquisition costs, based on the detailed review of historical subscriber churn rates and the estimated default rate. Based on our current assessment and evaluation, we believe that there is no significant problem in recovering the carrying amounts of the deferred customer acquisition costs as at December 31, 2004.

We have made the above recoverability assessments based on the current legal and operating environment relating to the subscribers contract performance and other information currently available to us. Actual results may differ significantly from the current situation and our current estimates. If the situation changes significantly in the future, we may need to expense off additional non-recoverable deferred customer acquisition costs based on conditions at that time.

Lease of CDMA Network Capacity

We had entered into a CDMA network capacity lease agreement with Unicom Group and Unicom Horizon in December 2001. Pursuant to this CDMA lease agreement, Unicom Horizon agreed to lease the capacity of the CDMA network to us covering the nine provinces of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei and the three municipalities of Beijing, Shanghai and Tianjin. This lease became effective on January 8, 2002.

In addition, on December 31, 2002 and 2003, we acquired all the equity interests in Unicom New Century and Unicom New World, respectively, which together operate GSM and CDMA cellular businesses in another 12 provinces, one municipality and five autonomous regions in China. Each of Unicom New Century and Unicom New World had also entered into a CDMA lease agreement with Unicom Group and Unicom Horizon on similar terms and conditions. These lease agreements and the lease agreement entered in 2001 are collectively referred to as the Old CDMA Leases.

According to the terms of the Old CDMA Leases, the initial lease period is one year, renewable for additional one-year terms at our own option. We have the exclusive right to lease and operate the CDMA network capacity in the above regions. Also, we have the option to add or reduce the capacity leased by giving advance notice. The lease fee per unit of capacity is calculated on the basis that if full capacity is leased, it would permit Unicom Horizon to recover its investment in constructing the CDMA network in 7 years, together with an internal return of 8%. In January 2004, we renewed the Old CDMA Leases, for an additional one-year term.

Subsequently, on March 24, 2005, we have entered into the New CDMA Lease with Unicom Group and Unicom Horizon to replace the Old CDMA Leases. The New CDMA Lease has been approved by our minority shareholders on May 12, 2005 and became retroactively effective from January 1, 2005. Key terms of the New CMDA Lease, including exclusive operating rights and purchase option, are substantially similar to those contained in the Old CDMA Leases except that (i) the initial lease period is two years, with full CDMA constructed network capacity to be leased from Unicom Horizon, and (ii) the lease fee shall be determined based on the Company s CDMA service revenue. For more detailed discussions of the terms of the New CDMA Lease, see B. Related Party Transactions – Leasing of CDMA Network Capacity – Lease of CDMA Network Capacity New CDMA Lease under Item 7.

We have assessed the appropriate lease classification at the inception of the Old CDMA Leases and New CDMA Lease. Factors and related implications we have considered include whether we have taken the risks and rewards of ownership of the CDMA assets. Furthermore, we have considered whether the existence of the purchase option and the renewal options, combined with the related economic penalties, risks and benefits, have caused us to take on risks and rewards similar to those that an owner of these assets would bear.

Unicom Horizon has the legal ownership of the CDMA network, is directly responsible for the planning, financing and construction of the CDMA network, and directly enters into all contracts with suppliers and constructors. We believe we only bear the risks associated with the operation of our CDMA business during the relevant leasing periods and are free from any ownership risks of the CDMA network. According to the terms of the Old CDMA Leases, our initial lease period is only one year, with renewal for additional one-year terms at our own option. Similarly, according to the terms of the New CDMA Lease, our initial lease period is determined to be only two years. Accordingly, there is no pre-determined lease period and minimum network capacity to be leased in future periods. We have the option to determine whether we will renew and continue the leases and how much capacity to lease under the Old CDMA Leases and the New CDMA Lease. We also have the option to decide whether we will exercise the purchase option of CDMA network based on market environment and the future operating performance of the CDMA business subject to approvals obtained from our independent minority shareholders.

Accordingly, if the CDMA business turns out to be unsuccessful, we do not have the obligation to continue the CDMA lease arrangement or to exercise the purchase option. Or, we could continue to lease nominal capacity in order to ensure that no other operator takes possession of the assets to compete with us in our service areas.

In general, the classification of leases is dependent on whether the risks and rewards of ownership of the leased assets rest substantially with the lessor or the lessee. Leases that substantially transfer to the lessee all the risks and rewards of ownership of the leased assets are accounted for as finance leases; and leases where substantially all the risks and rewards of ownership of the leased assets remain with the lessor are accounted for as operating leases. When performing this assessment, we have considered the various factors above that required significant judgment.

From the inception of the Old CDMA Leases and the New CDMA Lease, there has been, and continues to be, a high degree of uncertainty related to the market condition and existing operating results of the CDMA business. It remains highly uncertain whether we will continue to lease the network in the future. We are also unable to determine whether or not we will exercise the purchase option. Given these uncertainties and due to the fact that the risks associated with the ownership of the CDMA assets substantially remain with Unicom Group and Unicom Horizon, we have accounted for the leasing of CDMA network capacity as operating leases under the Old CDMA Leases and continue to do so under the New CDMA Lease, so as to reflect the respective rights and obligations of the relevant parties to the lease agreements. At the end of the effective lease term, or if significant modifications are made to the lease agreement, we will reassess the appropriate classification based on the relevant facts and circumstances available at that time.

Based on the above assessment, only the operating lease expense has been recorded in our statements of income since the commencement of the Old CDMA Leases, whereas the carrying value of the CDMA assets and the related liabilities are not reflected in our balance sheet. For the years ended December 31, 2003 and 2004, we recorded lease expenses of approximately RMB3.52 billion and RMB6.59 billion, respectively, under the Old CDMA Leases.

Impairment of Assets

As of the end of each year, we conduct a full review of various information to identify indications that the carrying values of our property, plant and equipment, construction-in-progress and other long-term assets may be impaired. If such an indication exists, we will also estimate the related asset s recoverable amount. To the extent that the estimated recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognized. The information used to identify indications of impairment might be subjective in nature and the interpretation and application of such information requires judgment, the result of which directly affects our estimate of any impairment provision considered necessary as at any given balance sheet date. To the extent our assumptions and estimations differ significantly from actual events and circumstances, we may need to make additional impairment provisions in the future.

In 2002, despite the fact that the revenue and subscriber number of the paging business continued to decline, it managed to maintain net cash inflows from operations. Our paging business did not improve significantly because the traditional paging business was still declining, whereas the new value-added paging businesses were at their initial development stage, and thus, the real value of the paging business was not yet fully realized. At that time, we were confident about the future prospects of these new value-added paging businesses, and we believed that they could generate sufficient future economic benefits to recover the carrying values of the existing paging assets. Consequently, we believed that it was not necessary to make additional impairment provision for 2002.

Later on, in the first half of 2003, we conducted a re-assessment of the recoverable amount of the paging assets based on the best estimates of the discounted net future cash flows expected to be generated from the paging business in the foreseeable future years. Management made key assumptions and estimations on the appropriate discount rate adopted (8% per annum), the period covered by the cash flow forecast, the impact of the continuous decline of traditional paging business, the future loss of subscribers, the expected trend in average revenue per subscriber, as well as incremental cash flows arising from new paging businesses and the effects of the adoption of cost reduction plans. All these assumptions and estimations were made based on historical trends adjusted for the current market situation (including the physical condition of these assets) and the forecast of the future development of the new value-added paging businesses.

In the first half of 2003, based on our updated analysis and the worsening decline of the traditional paging business, we expected that the related incremental future cash inflows to be generated from the new value-added paging services, despite their continuous growth, were unlikely to offset the effects of the rapid decline of the traditional paging business in the future. Consequently, based on the latest estimate of the discounted future net cash flows expected to arise from the continuing operations of the paging business, after considering the unexpected rapid decline of the traditional paging business in the first half of 2003, we concluded that the carrying amount of paging assets as at June 30, 2003 had exceeded their expected recoverable amounts. Accordingly, we recorded an additional impairment loss for property, plant and equipment of the paging business amounting to approximately RMB528 million in the first half of 2003. Subsequently, we sold the paging business to our ultimate parent company, Unicom Group, effective on December 31, 2003. The disposal loss of this discontinued operation, representing the difference between the sales proceeds and the carrying amount of the net assets of the paging business as of the effective date of the disposal which amounted to approximately RMB663 million, was recognized and charged to the statement of income in 2003.

Provision for Doubtful Debts

Accounts receivables are stated at cost, less provision for doubtful debts. We evaluate specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. We record a provision based on our best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as of each period-end, we make a provision based on the aging pattern of the receivable amounts and by applying reasonable percentages to the outstanding receivables. We make such estimates based on our past experience, historical collection patterns, subscribers credit worthiness and collection trends. For the general subscribers of our cellular, long distance, data and Internet services, we make a full provision for receivables aged over 3 months, which is consistent with our credit policy with respect to relevant subscribers.

Our estimates described above are based on our historical experience, subscribers credit worthiness and collection trends. If circumstances change (e.g. due to factors including developments in our business and the external market environment), we may need to re-evaluate our policies on doubtful debts, and make additional provisions in the future.

Income Tax and Deferred Taxation

Income tax is provided for based on income before tax for statutory financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for tax purposes and taking into consideration any preferential tax treatment to which we are entitled.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In the preparation of our financial statements, we estimate our income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which we are entitled in each location or jurisdiction in which we operate. This process involves estimation made by us about our current tax exposure together with an assessment of temporary differences resulting from different treatment of items for tax and accounting purposes in order to determine the amount of tax provisions for the period. We believe we have recorded adequate tax provisions based on our best estimates and assumptions. For the evaluation of temporary differences, we have assessed the likelihood that our deferred taxes could be deferred and recovered. Major deferred tax components include interests on loans from China-China-Foreign, or CCF, joint ventures, loss arising from terminations of CCF arrangements, provisions for doubtful debts and write-down of inventory to net realizable value and additional depreciation deductible for tax purpose. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to RMB1.20 billion and RMB0.54 billion as of December 31, 2003 and 2004, respectively. Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income from continuing operations in the foreseeable future.

We believe we have recorded adequate current and deferred taxes based on prevailing tax rules and regulations and our current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred taxes may be necessary.

Operating Results

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Our results of operations in 2004 were materially affected by our acquisitions of Unicom New World effective December 31, 2003. In particular, our operating revenue and operating expenses increased significantly in 2004, which was primarily due to the inclusion of the results of operations of Unicom New World. By comparison, our results in 2003 did not include the results of operations of Unicom New World. As a result, our results of operations in 2004 are not directly comparable with those in prior years. See – Acquisitions of Unicom New Century, Unicom New World and Unicom International and Sale of Guoxin Paging above. See also A. The History and Development of the Company – Acquisition of Unicom New World and Sale of Guoxin Paging under Item 4 above.

In 2004, our operating revenue continued to increase, by 17.3% from RMB67.64 billion in 2003 to RMB79.33 billion in 2004. This growth was principally due to the strong growth of our CDMA cellular business and continued growth of our GSM cellular business, as well as the inclusion of revenue attributable to Unicom New World, which we acquired effective December 31, 2003. Our cellular businesses continued to increase in their percentage contribution to our overall business. Our long distance, data and Internet businesses decreased in terms of operating revenues and in their contribution to our business.

Due to factors discussed below, in 2004 our operating expenses grew 20.7%. As a result, our operating income decreased by 6.6% to RMB7.96 billion, while our operating margin decreased to 10.0%, as compared with 12.5% in 2003. Operating margin in our GSM cellular business decreased from 21.2% in 2003 to 17.4% in 2004. While our CDMA cellular business sustained rapid growth in 2004, its operating loss increased by 102.6%. In our long distance and data and Internet businesses, operating income decreased 67.3% in 2004 and operating margin decreased to 5.3% in 2004 from 17.2% in 2003.

Our net income in 2004 increased by 4.0% to RMB4.39 billion, for reasons discussed below.

Operating Revenue

Operating revenue from our GSM cellular business grew steadily in 2004 and continued to generate a majority of our total operating revenue, while operating revenue from our CDMA cellular business sustained fast growth in 2004, significantly increasing its share of our total operating revenue for the year. Our CDMA cellular business, introduced in January 2002, generated RMB26.34 billion in operating revenue in 2004, contributing 66.3% of our total operating revenue growth in that year. Operating revenues from our GSM and CDMA cellular businesses represented 93.0% of our total operating revenue in 2004, as compared with 88.3% in 2003. The share of operating revenue from the CDMA cellular business in our total operating revenue increased from 27.5% in 2003 to 33.2% in 2004, while the share of operating revenue from the GSM cellular business in our total operating revenue decreased from 60.9% in 2003 to 59.8% in 2004. Operating revenues from our long distance and data and Internet businesses slightly decreased from RMB5,732 million in 2003 to RMB5,527 million in 2004. Operating revenues from our long distance business and our data and Internet businesses represented 2.3% and 4.7%, respectively, of our total operating revenue in 2004, as compared with 3.3% and 5.1%, respectively, in 2003. The growth in our total operating revenue, however, was partially offset by the sale of our paging business, effective December 31, 2003. We believe the changes in our operating revenue composition reflect our focus on the development of our cellular businesses.

Cellular Revenue

For the reasons discussed below, operating revenues from our GSM and CDMA cellular businesses (including revenues from sales of telecommunications products) together increased by 23.5%, from RMB59.75 billion in 2003 to RMB73.80 billion in 2004.

GSM Cellular Business Operating revenue from our GSM cellular business increased by 15.3%, from RMB41.17 billion in 2003 to RMB47.47 billion in 2004, primarily due to the continued increase in the total number of our total GSM cellular subscribers as a result of organic subscriber growth and the effect of our acquisition of Unicom New World. The total number of our GSM cellular subscribers increased by 31.8%, from 63.92 million as of December 31, 2003 to 84.27 million as of December 31, 2004. As a result of continuing cellular penetration expansion, an increase in the proportion of low-usage subscribers among new subscribers, an increased number of pre-paid subscribers, and increasing market competition negatively affecting effective pricing, ARPU from the GSM cellular business declined 12.9%, from RMB56.7 in 2003 to RMB49.4 in 2004. Post-paid ARPU decreased by 12.2%, from RMB66.2 in 2003 to RMB58.1 in 2004, while pre-paid ARPU decreased by 13.0%, from RMB46.0 in 2003 to RMB40.0 in 2004. The average MOU per subscriber per month increased 8.8%, from 173.7 minutes in 2003 to 188.9 minutes in 2004.

Revenue from pre-paid GSM cellular service was RMB18.09 billion in 2004, a 18.0% increase from RMB15.33 billion in 2003. Revenue from pre-paid services accounted for 38.8% of the service revenue from our GSM cellular business in 2004, an increase from 37.2% of the total service revenue from the GSM cellular business in 2003. Pre-paid subscribers accounted for 72.0% of our new customers in 2004, compared to 73.8% in 2003 primarily due to the lower percentage of pre-paid subscribers of Unicom New World compared to the percentage of our pre-paid subscribers before the acquisition.

The table below sets forth the revenue composition of our GSM cellular business and each revenue item s respective share of total GSM operating revenue in the years ended December 31, 2002, 2003 and 2004.

	2002		2003		2004	
	RMB in million	As percentage of total	RMB in million	As percentage of total	RMB in million	As percentage of total
Operating Revenue	28,109	100.0%	41,166	100.0%	47,466	100.0%
Service Revenue	27,388	97.4%	40,303	97.9%	46,579	98.1%
Usage Fee	20,275	72.1%	29,072	70.6%	31,997	67.4%
Monthly Fee	4,169	14.8%	7,042	17.1%	6,922	14.6%
Interconnection Revenue	1,710	6.1%	1,927	4.7%	2,614	5.5%
Others	1,234	4.4%	2,262	5.5%	5,046	10.6%
Sales of Telecommunications Products	721	2.6%	863	2.1%	887	1.9%

Due to the growth in total usage of our GSM cellular services (including the effects of our acquisition of Unicom New World) and the increasing proportion of pre-paid cellular subscribers (who do not pay monthly fees), usage fees for GSM cellular services increased by 10.1% from RMB29.07 billion in 2003 to RMB32.00 billion in 2004, and represented 68.7% of total GSM service revenue as compared with 72.1% in 2003. For the same reasons, monthly fees decreased by 1.7%, from RMB7.04 billion in 2003 to RMB6.92 billion in 2004, and represented 14.9% of total GSM service revenue as compared with 17.5% in 2003. Interconnection revenue increased by 35.7% from RMB1.93 billion in 2003 to RMB2.61 billion in 2004, and represented 5.6% of total service revenue as compared with 4.8% in 2003.

While continuing to meet the diverse needs of our customers in the mass market, our GSM cellular business aims to actively pursue mid- to high-end customers through the development and promotion of value-added services. Revenue from our GSM value-added cellular services increased 134.8%, from RMB2.07 billion in 2003 to RMB4.86 billion in 2004. Its share of total GSM service revenue more than doubled from 5.0% in 2003 to 10.4% in 2004. Of the total revenue from GSM value-added cellular services, revenue from short messaging services increased 103% from RMB1.37 billion in 2003 to RMB2.79 billion in 2004, and its share of total GSM service revenue grew from 3.4% in 2003 to 6.0% in 2004. Revenue from value-added services contributed significantly to the increase of our total GSM cellular revenue and, we believe, will continue to enhance our competitiveness in this business.

CDMA Cellular Business. Since we launched CDMA cellular services in 2002, our CDMA subscriber base has expanded rapidly as the market became more familiar with our CDMA services. In 2004, the growth in our CDMA subscriber base greatly boosted revenue from the CDMA cellular business. Operating revenue from our CDMA cellular business reached RMB26.34 billion in 2004, a 41.8% increase over RMB18.58 billion in 2003. This increase was primarily due to the rapid expansion of our CDMA cellular business as well as the effect of including revenue attributable to Unicom New World, which we acquired effective December 31, 2003. Our CDMA marketing strategy, which seeks to differentiate our CDMA services from our GSM services, has resulted in a rapid increase in the CDMA subscriber base, while successfully positioning the CDMA business in the marketplace as enterprise, infotainment, health-conscious and trendy services. ARPU for our CDMA cellular business reached RMB85.3 in 2004, more than 72.7% higher than the ARPU of RMB49.4 for GSM cellular services.

The table below sets forth the revenue composition of our CDMA cellular business and each revenue item s respective share of total CDMA operating revenue for the years ended December 31, 2002, 2003 and 2004.

	2002		2003		2004	
	RMB in million	As percentage of total	RMB in million	As percentage of total	RMB in million	As percentage of total
Operating Revenue	3,648	100.0%	18,580	100.0%	26,338	100.0%
Service Revenue	3,225	88.4%	16,624	89.5%	24,220	92.0%
Usage Fee	2,231	61.2%	11,672	62.8%	16,165	61.4%
Monthly Fee	713	19.5%	3,488	18.8%	4,638	17.6%
Interconnection Revenue	184	5.0%	608	3.3%	927	3.5%
Others	97	2.7%	856	4.6%	2,490	9.5%
Sales of Telecommunications Products	423	11.6%	1,956	10.5%	2,118	8.0%

CDMA usage fees increased by 38.5% from RMB11.67 billion in 2003 to RMB16.17 billion in 2004, and represented 66.7% of total CDMA service revenue as compared with 70.2% in 2003. Monthly fees increased by 33.0%, from RMB3.49 billion in 2003 to RMB4.64 billion in 2004, and represented 19.1% of total CDMA service revenue as compared with 21.0% in 2003. Interconnection revenue increased by 52.5% from RMB0.61 billion in 2003 to RMB0.93 billion in 2004, and represented 3.8% of total service revenue as compared with 3.7% in 2003.

With the expansion of our CDMA 1X wireless data services in 2004, we have been actively developing our CDMA wireless data business, by making efforts to convert the competitive edge of the CDMA technology into a competitive edge in operations in order to enhance competitiveness in the market and our appeal to subscribers. Revenue from value-added CDMA cellular services reached RMB2.38 billion in 2004, an increase of 205.1% from RMB0.78 billion in 2003, and accounted for 9.8% of total service revenue from the CDMA cellular business in 2004. We expect revenue from value-added CDMA services will continue to grow significantly, as we will continue to focus on the development and marketing of such value-added services.

Long Distance and Data and Internet Revenue

Operating revenue from our long distance and data and Internet businesses reached RMB5.53 billion, a decrease of 3.6% from 2003. We intend to continue to leverage on our multi-business integrated network platform and actively promote services with distinctive features such as Ruyi Mailbox , UNI-VIDEO and U-Net .

Long Distance Business. Operating revenue from our traditional public switched long distance business decreased by 19.1%, from RMB2.29 billion in 2003 to RMB1.85 billion in 2004. Such decrease is primarily due to increased competition and the decrease in interconnection revenue from Unicom New World caused by our acquisition of Unicom New World.

Data and Internet Business. We have fully leveraged the technological advantage of our multi-businesses integrated network platform. Along with effectively expanding international and domestic call volume for IP telephony services, we have been targeting institutional subscribers and corporate subscribers in promoting services with distinctive features such as UNI-VIDEO and U-Net , and we also have been targeting the mass market in promoting data and Internet services such as Ruyi Mailbox . At the same time, we have been continuing to develop integrated data, voice and video connection services, and dedicated and dial-up connection services. As a result of these efforts, revenue from our data and Internet businesses rose by 6.8% from RMB3.44 billion in 2003 to RMB3.68 billion in 2004.

Paging Revenue

We sold our paging business to Unicom Group, effective December 31, 2003, and therefore did not have revenue from the paging business in 2004. See – Acquisitions of Unicom New Century, Unicom New World and Unicom International and Sale of Guoxin Paging above. See also A. The History and Development of the Company – Restructuring and Acquisition of Unicom New Century under Item 4 above.

Operating Expenses

Operating expenses in 2004 were RMB71.38 billion, representing an increase of 20.7% over 2003, which was greater than the 17.3% growth in operating revenue for the same period. As discussed below, a 71.2% increase in leased lines and network capacities expenses, a 25.0% increase in selling and marketing expenses, a 16.3% increase in depreciation and amortization expenses and a 27.0% increase in interconnection charges were the primary factors in the increase in operating expenses. Due to the rapid expansion of our CDMA business, selling and marketing expenses (which include the amortized portion of deferred customer acquisition costs under special promotional packages with certain CDMA contractual subscribers) and leased lines and network capacities expenses (which include the expenses from the CDMA network leases) increased faster than our operating revenue in 2004. As our various business segments continued to develop, interconnection charges also increased faster than our operating revenue in 2004 since the interconnection rates remain unchanged while our effective tariffs have been declining due to continued price competition. In addition, depreciation and amortization expenses increased primarily due to the expansion of the scale of our fixed assets. Our operating expenses as a percentage of total revenue increased to 90.0% in 2004, as compared with 87.4% in 2003. Since late 2004, we have emphasized the business strategy of effective growth , i.e., profit-driven growth, and will continue to focus on cost control and optimization of our expense structure in order to ensure continued growth in earnings.

The table below illustrates the major expense items from 2002, 2003 and 2004 and their respective shares of total operating revenue.

	For the year ended December 31,					
	2002		2003		2004	
	RMB in million	% of Total Revenue	RMB in million	% of Total Revenue	RMB in million	% of Total Revenue
Total Operating Expenses	33,253	82.0%	59,122	87.4%	71,376	90.0%
Leased lines and network capacities	1,583	3.9%	4,320	6.4%	7,398	9.3%
Interconnection charges	3,230	8.0%	5,921	8.7%	7,517	9.5%
Depreciation and amortization	11,256	27.7%	16,385	24.2%	19,063	24.0%
Personnel	3,335	8.2%	4,575	6.8%	4,526	5.7%
Selling and marketing	5,981	14.8%	15,157	22.4%	18,945	23.9%
General, administrative and other expenses	5,632	13.9%	9,112	13.5%	10,448	13.2%
Include: Impairment loss and assets write-off of the Paging Business	116	0.3%	557	0.8%		
Cost of telecommunications products sold	2,236	5.5%	3,652	5.4%	3,479	4.4%

Leased Lines and Network Capacities. With the significant increase in our CDMA subscribers, the lease expense for CDMA network capacities increased by 87.4%, from RMB3.52 billion in 2003 to RMB6.59 billion in 2004. In addition, the effect of including leased line expenses for transmission lines used by Unicom New World we acquired effective December 31, 2003 also contributed to the increase in our leased line expenses. As result, the aggregate amount of our leased line expenses and network capacity lease expenses increased to RMB7.40 billion, representing an increase of 71.2% from RMB4.32 billion in 2003. Leased lines and network capacities expenses as a percentage of total operating revenue rose from 6.4% in 2003 to 9.3% in 2004.

Interconnection Charges. Interconnection charges reached RMB7.52 billion in 2004, representing an increase of 27.0% from 2003, primarily due to the increase in interconnection traffic volume as a result of the development of our GSM and CDMA cellular business and long distance, data and Internet businesses, as well as the effect of including interconnection expenses of Unicom New World, which we acquired effective December 31, 2003. Interconnection charges for our CDMA cellular business increased by 65.9%. Interconnection charges increased by 17.8% for our GSM cellular business. Interconnection charges for long distance, data and Internet business increased by 23.6%. As our various business segments continued to develop, interconnection charges as a percentage of total operating revenue also increased from 8.7% in 2003 to 9.5% in 2004.

Depreciation and Amortization. Depreciation and amortization expenses increased by 16.3% to RMB19.06 billion in 2004, a lower growth rate than the growth in operating revenue. The increase in depreciation and amortization expenses resulted from expanded network capacity, the expansion of assets scale and the effect of including depreciation expenses attributable to Unicom New World, which we acquired on December 31, 2003. Depreciation and amortization expenses as a percentage of total operating revenue decreased slightly from 24.2% in 2003 to 24.0% in 2004.

Personnel. As of the end of 2004, we had 39,589 employees, an increase of 2.2% from 38,728 at the end of 2003 (including employees in the nine provinces, autonomous regions and municipalities we acquired through Unicom New World at the end of 2003). Our personnel expenses slightly decreased from RMB4.58 billion in 2003 to RMB4.53 billion in 2004. Its share as a percentage of total operating revenue dropped from 6.8% in 2003 to 5.7% in 2004. In order to align the interest of our employees with that of our shareholders, we have set up an employee share option scheme and granted options to qualified employees. During 2004, total share options involving 113,322,000 shares in our company were granted under the share option scheme.

Selling and Marketing. Our major selling and marketing expenses included commissions, promotion and advertising expenses and amortization of customer acquisition costs of contractual CDMA subscribers. Selling and marketing expenses totaled RMB18.95 billion in 2004, an increase of 25.0% from 2003. Amortization of CDMA subscribers acquisition costs in 2004 were RMB6.12 billion, an increase of 4.9% from 2003. The balance of unamortized deferred CDMA subscriber acquisition costs increased from RMB4.04 billion as of the end of 2003 to RMB4.75 billion as of the end of 2004 primarily due to continued offering of CDMA handset promotion packages as a result of intense competitive pressure. Due to the continued growth in the subscriber base of our various business segments (including the effect of our acquisition of Unicom New World), the commissions to distributors and sales agents rose to RMB9.91 billion, an increase of 35.9%. Promotion and advertising expenses were RMB2.37 billion, an increase of 16.2%. Selling and marketing expenses as a percentage of operating revenue increased from 22.4% in 2003 to 23.9% in 2004.

General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB10.45 billion in 2004, representing an increase of 14.7% from RMB9.11 billion in 2003. General, administrative and other expenses as a percentage of total operating revenue decreased slightly from 13.5% in 2003 to 13.2% in 2004. In 2004, the provision for doubtful debts was RMB2.19 billion, an increase of 25.1% from 2003. Provision for doubtful debts as a percentage of service revenue increased slightly from 2.7% in 2003 to 2.9% in 2004. This has also contributed to the increase in our general, administrative and other expenses.

Cost of Telecommunications Products Sold. The cost of telecommunication products sold decreased by 4.7% from RMB3.65 billion in 2003 to RMB3.48 billion in 2004. The share of cost of telecommunications products sold as a percentage of operating revenue decreased from 5.4% in 2003 to 4.4% in 2004.

Operating Income

In 2004, our operating revenue increased by 17.3%, while our operating expenses increased by 20.7%. As a result, our operating income reached RMB7.96 billion, an decrease of 6.6% from 2003, and our operating margin decreased from 12.5% in 2003 to 10.0% in 2004.

GSM Cellular Business. In our GSM cellular business, operating income was RMB8.26 billion in 2004, which is a decrease of 5.3% from 2003. The decrease in the operating income of our GSM cellular business mainly reflects the 13% decline in the ARPU for our GSM cellular business, which was partially offset by the 8.8% increase in the average monthly MOU per subscriber. The decrease in ARPU resulted from intense competition with our main competitor as well as the Little Smart services. In addition, while there was a net addition of 20.35 million subscribers to our GSM services in 2004, a sizable number of subscribers terminated their GSM services with us, contributing to significant increase in our marketing cost. Our operating margin in the GSM cellular business decreased from 21.2% in 2003 to 17.4% in 2004.

CDMA Cellular Business. We incurred a total operating loss of RMB0.59 billion in 2004 for our CDMA business as compared with the operating loss of RMB0.29 billion in 2003. The increase of operating loss of our CDMA cellular business was primarily due to the 33.6% decrease in ARPU as a result of intense competition, the significant increase in lease expenses for our CDMA network capacities as a result of the growth of our customer base, the continued high level of marketing expenses and the significant increase in interconnection charges. After taking into consideration of the improper accounting recordings and errors we identified in our Jiangxi and Xinjiang branches as described in Item 15 Controls and procedures , the operating losses of our CDMA business for 2004 and 2003 would have been RMB0.45 billion and RMB0.42 billion, respectively.

Long Distance Business. In our long distance business, operating income decreased 24.4%, from RMB0.70 billion in 2003 to RMB0.53 billion in 2004, primarily because of reduced tariff level as a result of increased competition and a reduction in the interconnection revenue after we acquired Unicom New World in December 2003. As a result, the operating margin in our long distance business decreased from 22.2% in 2003 to 17.0% in 2004.

Data and Internet Business. In our data and Internet businesses, we had an operating loss of RMB0.06 billion in 2004, compared with an operating income of RMB0.75 billion in 2003. This change primarily resulted from significantly higher sales cost associated with the promotion of new products such as Uni-Video than in 2003.

Net Income

Financial Income and Expenses. Our financial income decreased from RMB0.17 billion in 2003 to RMB0.10 billion in 2004, mainly due to a decline in interest income resulting from a reduction in our cash and overall reduced applicable interest rates. Our financial expenses decreased from RMB1.94 billion in 2003 to RMB1.69 billion in 2004, primarily due to overall reduced applicable interest rates. The above factors resulted in a net financial expense of RMB1.59 billion in 2004, a decrease of 10.1% from the net financial expense of RMB1.76 billion in 2003.

Income Tax. Our income tax increased to RMB2.08 billion in 2004, an increase of 10.1% from 2003. Our effective tax rates in 2003 and 2004 were 31.0% and 32.2%, respectively. The higher effective tax rate in 2004, as compared with 2003, was mainly due to the fact that a large percentage of our gross income in 2004 was generated in areas that have higher tax rates than the rest of our service areas.

Net Income. For reasons analyzed in the above discussion, our net income was RMB4.39 billion in 2004, representing an increase of 4.0% from 2003. Earnings per share increased 3.9%, from RMB0.336 in 2003 to RMB0.349 in 2004.

Impact of Differences between HK GAAP and US GAAP

In addition to the above management discussion and analysis of our results of the operation under HK GAAP between the years ended December 31, 2004 and 2003, in connection with the preparation and reconciliation of our consolidated financial statements in accordance with US GAAP, we believe the following significant accounting differences between HK GAAP and US GAAP would have a significant impact on our management discussion and analysis of the results of our operation between the years ended December 31, 2004 and 2003 under US GAAP. See also Note 40 to the consolidated financial statements for a more detailed summary of all significant accounting differences between HK GAAP and US GAAP that are relevant to us.

Under HK GAAP, the acquisitions of Unicom International in September 2004 and of Unicom New World on December 31, 2003 have been accounted for under the purchase method. Accordingly, the acquired results of operations have been incorporated into our operating results only from the date of the acquisition. In contrast, under US GAAP, our acquisitions of Unicom International and Unicom New World have been accounted for as a transfer of businesses under common control. Under this method, the acquired assets and liabilities have been accounted for at historical cost under US GAAP and the consolidated financial statements prepared under US GAAP for all periods presented have been retroactively restated as if Unicom International and Unicom New World had always been part of our company.

Under HK GAAP, the sale of Guoxin Paging to the Unicom Group is accounted for as a sale of discontinued operation. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of December 31, 2003 was recorded as a loss on sale of discontinued operation in our consolidated income statement for the year ended December 31, 2003. The operating results of Guoxin Paging from January 1, 2003 to the effective date of the sale of Guoxin Paging were included in our consolidated income statement for the year ended December 31, 2003. Under US GAAP, the sale of Guoxin Paging is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value. In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separately from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as Discontinued operation Loss from discontinued operation under US GAAP.

In addition, under HK GAAP, we recognized upfront non-refundable revenue, such as connection fee, when received upon completion of activation services. Under US GAAP, this upfront non-refundable revenue and the related direct incremental costs incurred are deferred and recognized over the estimated customer service periods.

Other than the above, there are no major material differences between HK GAAP and US GAAP that would have a significant impact on the discussion and analysis of our results of operations between the years ended December 31, 2004 and 2003. Taking into account the operating results of the acquired business and the disposed business, our combined operating revenue under US GAAP increased from RMB71.98 billion in 2003, to RMB79.39 billion in 2004, representing an increase of 10.3%. Our net income under US GAAP decreased from RMB4.74 billion in 2003 to RMB4.71 billion in 2004, representing a decrease of 0.5%.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Our results of operations in 2003 were materially affected by our acquisition of Unicom New Century effective December 31, 2002. In particular, our operating revenue and operating expenses increased significantly in 2003. This was primarily due to the inclusion of the results of operations of Unicom New Century. By comparison, our results in 2002 did not include the results of operations of Unicom New Century. As result, our results of operations in 2003 are not directly comparable with those in prior years. See − Acquisitions of Unicom New Century, Unicom New World and Unicom International and the Sale of Guoxin Paging above. See also A. The History and Development of the Company − Restructuring and Acquisition of Unicom New Century under Item 4 above.

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In 2003, our operating revenue continued to increase, by 66.7% from RMB40.58 billion in 2002 to RMB67.64 billion in 2003. This growth was principally due to the strong growth of our CDMA cellular business and continued growth of our GSM cellular business, as well as the inclusion of revenue attributable to Unicom New Century, which we acquired effective December 31, 2002. Our cellular businesses continued to increase in their percentage contribution to our overall business. Our long distance, data and Internet businesses also continued to grow in terms of operating revenues and in their contribution to our business.

Due to factors discussed below, in 2003 our operating expenses grew 77.8%. As a result, our operating income increased by 16.3% to RMB8.51 billion, while our operating margin decreased to 12.6%, as compared with 18.0% in 2002. Operating margin in our GSM cellular business decreased from 27.2% in 2002 to 21.2% in 2003. Our CDMA business continued to grow during the year. In our long distance business, operating income decreased 31.6% in 2003 and operating margin, at 30.6% in 2003, decreased from 36.8% in 2002. In our data and Internet businesses, operating income increased by 95.3% over 2002. Our traditional paging business continued to decline, and despite our focus on cost reduction and development of new value-added paging services, it still experienced an operating loss in 2003.

Our net income in 2003 decreased by 8.3% to RMB4.22 billion, for reasons discussed below.

Operating Revenue

Operating revenue from our GSM cellular business grew steadily in 2003 and continued to be the major force behind our total operating revenue growth, contributing almost half of such growth in 2003, while operating revenue from our CDMA cellular business grew rapidly in 2003, significantly increasing its share of our total operating revenue for the year. Our CDMA cellular business, introduced in January 2002, reached RMB18.58 billion in operating revenue in 2003, contributing 55.2% of our total operating revenue growth in that year. Operating revenues from our GSM and CDMA cellular businesses represented 88.4% of our total operating revenue in 2003, as compared with 78.3% in 2002. The growth of the CDMA cellular business can be seen in its share of our total operating revenue, which increased from 9.0% in 2002 to 27.5% in 2003, while the share of operating revenue from the GSM cellular business in our total operating revenue decreased from 69.3% in 2002 to 60.9% in 2003. Operating revenues from our long distance and data and Internet businesses increased steadily, contributing 0.5% of our total operating revenue growth in 2003. Operating revenues from our long distance business and our data and Internet businesses represented 3.3% and 5.1%, respectively, of our total operating revenue in 2003, as compared with 6.8% and 6.9%, respectively, in 2002. The growth in our total operating revenue, however, was partially offset by the continued significant decline in operating revenue from our paging business, which also declined as a percentage of our total operating revenue from 8.0% in 2002 to 3.2% in 2003.

Cellular Revenue

For the reasons discussed below, operating revenues from our GSM and CDMA cellular businesses (including revenues from sales of telecommunications products) together increased by 88.1%, from RMB31.76 billion in 2002 to RMB59.75 billion in 2003.

GSM Cellular Business Operating revenue from our GSM cellular business increased by 46.5%, from RMB28.11 billion in 2002 to RMB41.17 billion in 2003, primarily due to the continued increase in the total number of our total GSM cellular subscribers as a result of organic subscriber growth and the effect of our acquisition of Unicom New Century. As a result of continuing cellular penetration expansion, an increase in the proportion of low-usage subscribers among new subscribers, an increased number of pre-paid subscribers, and increasing market competition negatively affecting effective pricing, ARPU from this business declined 15.8%, from RMB67.3 in 2002 to RMB56.7 in 2003. Post-paid ARPU decreased by 19.5%, from RMB82.2 in 2002 to RMB66.2 in 2003, while pre-paid ARPU decreased by 15.0%, from RMB54.1 in 2002 to RMB46.0 in 2003. The average MOU per subscriber per month increased 5.0%, from 165.5 minutes in 2002 to 173.7 minutes in 2003. The foregoing operational statistics do not include the effects of the acquisition of Unicom New World.

Revenue from pre-paid GSM cellular service was RMB15.33 billion in 2003, a 52.1% increase from RMB10.08 billion in 2002. Revenue from pre-paid services accounted for 37.2% of the service revenue from our GSM cellular business in 2003, an increase from 35.9% of the total service revenue from the GSM cellular business in 2002. Pre-paid subscribers accounted for 73.8% of our new customers in 2003, compared to 81.1% in 2002 primarily due to the lower percentage of pre-paid subscribers of Unicom New Century, which was acquired by us on December 31, 2002, compared to the percentage of our pre-paid subscribers before the acquisition.

The table below sets forth the revenue composition of our GSM cellular business and each revenue item's respective share of total GSM operating revenue in the years ended December 31, 2001, 2002 and 2003.

	2001		2002		2003	
	RMB in million	As percentage of total	RMB in million	As percentage of total	RMB in million	As percentage of total
Operating Revenue	21,326	100.0%	28,109	100.0%	41,166	100.0%
Service Revenue	20,505	96.2%	27,388	97.4%	40,303	97.9%
Usage Fee	14,938	70.0%	20,275	72.1%	29,072	70.6%
Monthly Fee	3,660	17.2%	4,169	14.8%	7,042	17.1%
Connection fee	205	1.0%				
Interconnection Revenue	1,262	5.9%	1,710	6.1%	1,927	4.7%
Others	440	2.1%	1,234	4.4%	2,262	5.5%
Sales of Telecommunications Products	821	3.8%	721	2.6%	863	2.1%

Due to the growth in total usage of our GSM cellular services (including the effects of our acquisition of Unicom New Century) and the increasing proportion of pre-paid cellular subscribers (who do not pay monthly fees), usage fees for GSM cellular services increased by 43.3% from RMB20.28 billion in 2002 to RMB29.07 billion in 2003, and represented 72.1% of total GSM service revenue as compared with 74.0% in 2002. For the same reasons, monthly fees increased by 68.9%, from RMB4.17 billion in 2002 to RMB7.04 billion in 2003, and represented 17.5% of total GSM service revenue as compared with 15.2% in 2002. Interconnection revenue increased by 12.9% from RMB1.71 billion in 2002 to RMB1.93 billion in 2003, and represented 4.8% of total service revenue as compared with 6.2% in 2002.

While continuing to meet the diverse needs of our customers in the mass market, our GSM cellular business aims to actively pursue mid- to high-end customers through the development and promotion of value-added services. Revenue from our GSM value-added cellular services increased 146.4%, from RMB0.84 billion in 2002 to RMB2.07 billion in 2003. Its share of total GSM service revenue increased from 3.1% in 2002 to 5.0% in 2003. Of the total revenue from GSM value-added cellular services, revenue from short messaging services increased 197.8% from RMB0.46 billion in 2002 to RMB1.37 billion in 2003, and its share of total GSM service revenue grew from 1.7% in 2002 to 3.4% in 2003. Revenue from value-added services contributed significantly to the increase of our total GSM cellular revenue.

CDMA Cellular Business. We began to provide CDMA cellular services on a trial basis on January 8, 2002. Since then, our CDMA subscriber base has expanded rapidly as the market became more familiar with our CDMA services. In 2003, the growth in our CDMA subscriber base greatly boosted revenue from the CDMA cellular business. Operating revenue from our CDMA cellular business reached RMB18.58 billion in 2003, a 409.3% increase over RMB3.65 billion in 2002. This increase was primarily due to the rapid expansion of our CDMA cellular business as well as the effect of including revenue attributable to Unicom New Century, which we acquired effective December 31, 2002. Our CDMA marketing strategy, which seeks to differentiate our CDMA services from our GSM services, has resulted in a rapid increase in the CDMA subscriber base, while successfully positioning the CDMA business in the marketplace as enterprise, infotainment, health-conscious and trendy services. ARPU for our CDMA cellular business reached RMB128.4 in 2003, RMB62.2 higher than the ARPU of RMB66.2 for GSM post-paid cellular services.

The table below sets forth the revenue composition of our CDMA cellular business and each revenue item s respective share of total CDMA operating revenue for the years ended December 31, 2002 and 2003.

	2002				2003			
	RMB in million		As percentage of total		RMB in million		As percentage of total	
Operating Revenue	3,648		100.0	%	18,580		100.0	%
Service Revenue	3,225		88.4	%	16,624		89.5	%
Usage Fee	2,231		61.2	%	11,672		62.8	%
Monthly Fee	713		19.5	%	3,488		18.8	%
Interconnection Revenue	184		5.0	%	608		3.3	%
Others	97		2.7	%	856		4.6	%
Sales of Telecommunications Products	423		11.6	%	1,956		10.5	%

CDMA usage fees increased by 423.3% from RMB2.23 billion in 2002 to RMB11.67 billion in 2003, and represented 70.2% of total CDMA service revenue as compared with 69.2% in 2002. Monthly fees increased by 391.5%, from RMB0.71 billion in 2002 to RMB3.49 billion in 2003, and represented 21.0% of total CDMA service revenue as compared with 22.1% in 2002. Interconnection revenue increased by 238.9% from RMB0.18 billion in 2002 to RMB0.61 billion in 2003, and represented 3.7% of total service revenue as compared with 5.7% in 2002.

With the introduction of our CDMA 1X wireless data services in March 2003, we are also actively developing our CDMA wireless data business, by making efforts to convert the competitive edge of the CDMA technology into a competitive edge in operations in order to enhance competitiveness in the market and our appeal to subscribers. Revenue from value-added CDMA cellular services reached RMB0.78 billion in 2003, an increase of 875.0% from RMB0.08 billion in 2002, and accounted for 4.7% of total service revenue from the CDMA cellular business, an increase of 2.2% from 2002.

Long Distance and Data and Internet Revenue

Operating revenue from our long distance and data and Internet businesses reached RMB5.73 billion, an increase of 2.8% from 2002.

Long Distance Business. Operating revenue from our traditional public switched long distance business decreased by 17.7%, from 2002 to RMB2.29 billion in 2003. Such decrease was primarily due to the decrease in interconnection revenue from Unicom New Century caused by our acquisition of Unicom New Century.

Data and Internet Business. We fully leveraged the technological advantage of our multi-businesses integrated network platform. Along with effectively expanding international and domestic call volume for IP telephony services, we targeted business subscribers and corporate subscribers in promoting services with distinctive features such as UNI-VIDEO , and we also targeted the mass market in promoting new services, such as Ruyi Mailbox . At the same time, we continued to develop integrated data, voice and video connection services, and dedicated and dial-up connection services. As a result of those efforts, revenue from our data and Internet businesses rose by 23.1% from 2002 to RMB3.44 billion in 2003.

Paging Revenue

In 2003, revenue from our paging business (including revenues from sales of telecommunications products) was RMB2.16 billion. Paging service revenue (i.e., excluding sales of paging-related telecommunications products) fell by 35.1% to RMB1.40 billion in 2003. This decline is due to the continued decline in the traditional paging business. Revenue from value-added and other services of the paging business reached RMB0.79 billion and accounted for 56.2% of the service revenue from the paging business. We disposed of our paging business, effective December 31, 2003.

Operating Expenses

Operating expenses in 2003 were RMB59.12 billion, representing an increase of 77.8%, which was greater than the 66.7% growth in operating revenue for the same period. As discussed below, a 172.9% increase in leased lines and network capacities expenses, a 153.4% increase in selling and marketing expenses and a 83.3% increase in the interconnection charges were the primary factors in the increase in operating expenses. Due to the launch of our CDMA business, selling and marketing expenses (which included the amortized portion of deferred customer acquisition costs under special promotional packages with certain CDMA contractual subscribers) and leased lines and network capacities expenses (which included the expenses from the CDMA network leases) increased faster than our operating revenue in 2003. In addition, as our various business segments continued to develop, interconnection charges also increased faster than our operating revenue in 2003 since the interconnection rates remain unchanged while our effective tariffs have been declining due to continued price competition. Our operating expenses as a percentage of total revenue increased to 87.4% in 2003, as compared with 82.0% in 2002.

The table below illustrates the major expense items from 2001, 2002 and 2003 and their respective shares of total operating revenue.

	For the year ended December 31,					
	2001		2002		2003	
	RMB in million	% of Total Revenue	RMB in million	% of Total Revenue	RMB in million	% of Total Revenue
Total Operating Expenses	24,129	82.1%	33,253	82.0%	59,122	87.4%
Leased lines and network capacities	853	2.9%	1,583	3.9%	4,320	6.4%
Interconnection charges	2,073	7.1%	3,230	8.0%	5,921	8.7%
Depreciation and amortization	8,262	28.1%	11,256	27.7%	16,385	24.2%
Personnel	2,487	8.5%	3,335	8.2%	4,575	6.8%
Selling and marketing	3,613	12.2%	5,981	14.8%	15,157	22.4%
General, administrative and other expenses	5,499	18.7%	5,632	13.9%	9,112	13.5%
Include: Impairment loss and assets write-off of the Paging Business	665	2.3%	116	0.3%	557	0.8%
Cost of telecommunications products sold	1,342	4.6%	2,236	5.5%	3,652	5.4%

Leased Lines and Network Capacities. With the significant increase in our CDMA subscribers, the lease expense for CDMA network capacities increased 295.5%, from RMB0.89 billion in 2002 to RMB3.52 billion in 2003. In addition, the effect of including leased line expenses for transmission lines used by Unicom New Century we acquired effective December 31, 2002 also contributed to the increase in our leased line expenses. As a result, the aggregate amount of our leased line expenses and network capacity lease expenses increased to RMB4.32 billion, representing an increase of 173.4% from 2002. Leased lines and network capacities expenses as a percentage of total operating revenue rose from 3.9% to 6.4% in 2003.

Interconnection Charges. Interconnection charges reached RMB5.92 billion in 2003, representing an increase of 83.3% from 2002, primarily due to the increase in interconnection traffic volume as a result of the development of our GSM and CDMA cellular business and long distance business, as well as the effect of including interconnection expenses of Unicom New Century, which we acquired effective December 31, 2002. Interconnection charges for our CDMA cellular business increased by 502.9%. Interconnection charges increased by 61.8% for our GSM cellular business. Interconnection charges for long distance, data and Internet business increased by 54.0%. As our various business segments continued to develop, interconnection charges as a percentage of total operating revenue also increased from 8.0% in 2002 to 8.7% in 2003.

Depreciation and Amortization. Depreciation and amortization expenses increased 45.6% to RMB16.39 billion in 2003, a lower growth rate than the growth in operating revenue. The increase in depreciation and amortization expenses resulted from expanded network capacity, primarily in connection with the development of the GSM cellular business, the expansion of assets scale, and the effect of including depreciation expenses attributable to Unicom New Century, which we acquired on December 31, 2002. Depreciation and amortization expenses as a percentage of total operating revenue decreased from 27.7% in 2002 to 24.2% in 2003.

Personnel. As of the end of 2003, we had 38,728 employees, an increase of 32.0% from 29,332 at the end of 2002 (excluding employees in the nine provinces, autonomous regions and municipalities we acquired through Unicom New Century at the end of 2002). This increase was primarily due to the effect of including employees of Unicom New Century, which we acquired on December 31, 2002. Our personnel expenses were RMB4.57 billion in 2003, its share as a percentage of total operating revenue dropping from 8.2% in 2002 to 6.8% in 2003. In order to align the interest of our employees with that of our shareholders, we have set up an employee share option scheme and granted options to qualified employees. During 2003, total share options involving 105,956,000 shares in our company were granted under the share option scheme.

Selling and Marketing. Our major selling and marketing expenses included commissions, promotion and advertising expenses and amortization of customer acquisition costs of contractual CDMA subscribers. Selling and marketing expenses totaled RMB15.16 billion in 2003, an increase of 153.4% from 2002. Amortization of CDMA subscribers acquisition costs in 2003 were RMB5.84 billion, an increase of 320.1% from 2002. The balance of unamortized deferred CDMA subscriber acquisition costs fell from RMB5.99 billion as of the end of 2002 to RMB4.04 billion as of the end of 2003. Due to the continued growth in the subscriber base of our various business segments (including the effect of our acquisition of Unicom New Century), the commissions to distributors and sales agents rose to RMB7.29 billion, an increase of 99.2%. Promotion and advertising expenses were RMB2.04 billion, an increase of 108.2%. Selling and marketing expenses as a percentage of operating revenue increased from 14.8% in 2002 to 22.4% in 2003.

General, Administrative and Other Expenses. Our general, administrative and other expenses were RMB9.11 billion in 2003, which includes an impairment loss and assets write-off of the paging business in the amount of RMB0.56 billion. Total expenses in this category increased by 61.8% from 2002. Excluding the impairment loss and assets write-off of the paging business, total expenses for this category increased by 51.9% from 2002. General, administrative and other expenses as a percentage of total operating revenue decreased from 13.9% in 2002 to 13.5% in 2003. In 2003, the provision for doubtful debts was RMB1.75 billion, an increase of 80.4% from 2002. Provision for doubtful debts as a percentage of service revenue increased slightly from 2.5% in 2002 to 2.7% in 2003. This also gave rise to an increase in our general, administrative and other expenses.

Cost of Telecommunications Products Sold. The cost of telecommunication products sold increased to RMB3.65 billion in 2003, an increase of 62.9% from RMB2.24 billion in 2002. The share of cost of telecommunications products sold as a percentage of operating revenue decreased from 5.5% in 2002 to 5.4% in 2003.

Operating Income

In 2003, our operating revenue increased by 66.7%, while our operating expenses increased by 77.8%. As a result, our operating income reached RMB8.51 billion, an increase of only 16.3% from 2002 and our operating margin only decreased from 18.0% in 2002 to 12.6% in 2003.

GSM Cellular Business. In our GSM cellular business, operating income reached RMB8.72 billion in 2003, which was an increase of 14.2% from 2002. The growth in the operating income of our GSM cellular business was slower than the overall increase in our operating income, mainly reflecting the 15.8% decline in the ARPU for our GSM cellular business. Our operating margin in the GSM cellular business decreased from 27.2% in 2002 to 21.2% in 2003.

CDMA Cellular Business. We incurred a total operating loss of RMB0.29 billion in 2003 for our CDMA business as compared with the operating loss of RMB0.99 billion in 2002 reflecting improvement in performance as a result of continued subscriber growth of our CDMA business which commenced operation since January 2002. After taking into consideration of the improper accounting recordings and errors we identified in our Jiangxi and Xinjiang branches as described in Item 15 Controls and procedures , the operating losses of our CDMA business for 2003 and 2002 would have been RMB0.42 billion and RMB1.00 billion, respectively.

Long Distance Business. In our long distance business, operating income decreased 31.4%, from RMB1.02 billion in 2002 to RMB0.70 billion in 2003, primarily because of a reduction in the interconnection revenue after we acquired Unicom New Century in December 2002. As a result, the operating margin in our long distance business, at 22.2% in 2003, decreased from 29.5% in 2002.

Data and Internet Business. In our data and Internet businesses, we had an operating income of RMB0.75 billion in 2003, a 97.4% increase from 2002. This resulted from the continued rapid growth in operating revenues in this business, together with our successful efforts to centralize operating expenses, which grew 56.9%.

Paging Business. As our traditional paging business continued to decline, our operating losses from our paging business grew from RMB0.62 billion in 2002 to RMB1.20 billion in 2003.

Net Income

Loss on Sale of Discontinued Operation (Guoxin Paging). The sale of Guoxin Paging to Unicom Group in 2003 resulted in a disposal loss in the amount of RMB0.66 billion.

Financial Income and Expenses. Our financial income decreased from RMB0.47 billion in 2002 to RMB0.17 billion in 2003, mainly due to a decline in interest income resulting from a reduction in our cash and overall reduced applicable interest rates. Our financial expenses increased from RMB1.47 billion in 2002 to RMB1.93 billion in 2003, primarily due to the acquisition of Unicom New Century. The above factors resulted in a net financial expense of RMB1.76 billion in 2003, an increase of 76% from the net financial expense of RMB1.0 billion in 2002.

Income Tax. Our income tax increased from to RMB1.89 billion in 2003, an increase of 9.8% from 2002. Our effective tax rates in 2002 and 2003 were 27.3% and 31.0%, respectively. The higher effective tax rate in 2003, as compared with 2002, was mainly due to the investment tax credits we received in 2002 in connection with the acquisition of certain domestic equipments.

Net Income. For reasons analyzed in the above discussion, our net income fell to RMB4.22 billion in 2003. Excluding the RMB0.56 billion in impairment loss and assets write-off of the paging business and the RMB0.66 billion loss on the sale of Guoxin Paging, our net income would have been RMB5.08 billion, representing an increase of 10.5% from 2002. Earnings per share decreased 7.7%, from RMB0.366 in 2002 to RMB0.336 in 2003.

Impact of Differences between HK GAAP and US GAAP

In addition to the above management discussion and analysis of our results of the operation under HK GAAP between the years ended December 31, 2003 and 2002, in connection with the preparation and reconciliation of our consolidated financial statements in accordance with US GAAP, we believe the following significant accounting differences between HK GAAP and US GAAP would have a significant impact on our management discussion and analysis of the results of our operation between the years ended December 31, 2003 and 2002 under US GAAP. See also Note 40 to the consolidated financial statements for a more detailed summary of all significant accounting differences between HK GAAP and US GAAP that are relevant to us.

Under HK GAAP, the acquisition of Unicom New World on December 31, 2003 has been accounted for under the purchase method. Accordingly, the acquired results of operations have been incorporated into our operating results only from the date of the acquisition. In contrast, under US GAAP, our acquisition of Unicom New World has been accounted for as a transfer of businesses under common control. Under this method, the acquired assets and liabilities have been accounted for at historical cost under US GAAP and the consolidated financial statements prepared under US GAAP for all periods presented have been retroactively restated as if Unicom New World had always been part of our company.

Under HK GAAP, the sale of Guoxin Paging to the Unicom Group is accounted for as a sale of discontinued operation. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of December 31, 2003 was recorded as a loss on sale of discontinued operation in our consolidated income statement for the year ended December 31, 2003. The operating results of Guoxin Paging from January 1, 2003 to the effective date of the sale of Guoxin Paging were included in our consolidated income statement for the year ended December 31, 2003. Under US GAAP, the sale of Guoxin Paging is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value. In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separately from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as Discontinued operation Loss from discontinued operation under US GAAP.

In addition, under HK GAAP, we recognized upfront non-refundable revenue, such as connection fee, when received upon completion of activation services. Under US GAAP, this upfront non-refundable revenue and the related direct incremental costs incurred are deferred and recognized over the estimated customer service periods.

Other than the above, there are no major material differences between HK GAAP and US GAAP that would have a significant impact on the discussion and analysis of our results of operations between the years ended December 31, 2003 and 2002. Taking into account the operating results of the acquired business and the disposed business, our combined operating revenue under US GAAP increased from RMB50.42 billion in 2002, to RMB71.98 billion in 2003, representing an increase of 42.8%. Our net income under US GAAP decreased from RMB5.04 billion in 2002 to RMB4.74 billion in 2003, representing a decrease of 6.0%.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of the end of 2004, we had RMB4.66 billion of cash and cash equivalents and RMB0.66 billion of short-term bank deposits. As of the end of 2004, we had negative working capital (current assets minus current liabilities) of RMB28.27 billion, compared to negative working capital of RMB21.66 billion at the end of 2003. The decrease in working capital resulted primarily from (i) the increase in short-term bank loans to replace long-term bank loans; (ii) the cash payment for the acquisitions of Unicom International and Unicom New World; and (iii) increased indebtedness as a result of the indebtedness of the newly-acquired Unicom International and Unicom New World. We believe that we will have access to financing, in particular bank financing in the PRC and elsewhere, which together with net cash inflows from operations will be sufficient to fund our capital and liquidity needs.

The following table sets forth cash inflows and outflows in 2002, 2003 and 2004.

	For the year ended December 31,		
	2002	2003	2004
		(RMB in millions)	
Net cash inflows from operating activities	13,054	22,565	23,819
Net cash outflows from investing activities	(5,166)	(19,051)	(18,958)
Net cash (outflows) inflows before financing activities	7,888	3,514	4,861
Net cash inflows (outflows) from financing activities	(11,868)	(8,778)	(9,401)
Net decrease in cash and cash equivalents	(3,980)	(5,264)	(4,540)

Net cash inflows from operating activities increased by 5.6%, from RMB22.57 billion in 2003 to RMB23.82 billion, mainly reflecting the growth in our business and reduction in our capital expenditure.

Net cash outflows from investing activities were RMB18.96 billion in 2004, compared to RMB19.05 billion in 2003. This decrease in net cash outflows from investing activities in 2004 primarily resulted from our effort to control capital investment and reduce investment cost.

Net cash outflows from financing activities were RMB9.40 billion in 2004, an increase of 7.1% from the outflow of RMB8.78 billion in 2003, resulting primarily from an increase in repayment of short-term bank loans, from RMB10.28 billion in 2003 to RMB12.27 billion in 2004, partially offset by a decrease in repayment of long-term loans, from RMB18.50 billion in 2003 to RMB17.25 billion in 2004 as we attempted to further optimize our debt structure.

Indebtedness and Capital Structure

The following table sets forth the amount of cash, assets, short-term and long-term debt, equity as well as debt-to-assets and debt-to-equity ratios as of the end of 2002, 2003 and 2004.

	As of December 31,		
	2002	2003	2004
	(RMB in millions, except percentages)		
Cash and cash equivalent and short-term bank deposits	19,259	10,133	5,317
Total assets	149,628	149,838	145,629
Short-term debt	15,330	18,173	20,015
Long-term debt	37,686	36,213	26,137
Minority interests	566		
Shareholders equity	66,653	69,615	72,810
Debt-to-assets ratio(1)	44.6%	43.9%	38.8%
Debt-to-equity ratio(2)	80.4%	78.1%	63.4%

(1) Debt-to-assets ratio = (long term debt + short term interest bearing debt + minority interests)/(long term debt + short term interest bearing debt + minority interests + shareholders equity).

(2) Debt-to-equity ratio = (long term debt + short term interest bearing debt + minority interests)/shareholders equity.

Our debt-to-assets ratio decreased from 43.9% at the end of 2003 to 38.8% at the end of 2004. Our debt-to-equity ratio decreased from 78.1% at the end of 2003 to 63.4% at the end of 2004. The sum of our long-term and short-term interest bearing debt exceeded the amount of our cash and cash equivalents and short-term bank deposits by RMB40.83 billion as of December 31, 2004. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs.

Outstanding short-term and long-term bank loans, denominated in RMB or the U.S. dollar, decreased from RMB54.39 billion at the end of 2003 to RMB46.15 billion at the end of 2004 reflecting our effort to optimize our debt structure by paying off bank loans that have become due. Our long-term bank loans generally bear floating interest rates that ranged from US$ LIBOR plus 0.28% to 0.44% per annum in 2004 with maturity through 2010. The loan agreements do not include financial performance or other covenants which materially restrict our operations or those of CUCL or Unicom New World, our principal operating subsidiaries in China. As of December 31, 2004, short-term bank loans of approximately RMB3.40 billion and long-term bank loans of approximately RMB6.78 billion were guaranteed by Unicom Group.

In September 2003 we entered into a US$700 million term loan facility with 13 financial institutions, which is consisted of three tranches: a three-year US$200 million tranche, with an interest rate of 0.28% over the US$ LIBOR per annum, a five-year US$300 million tranche, with an interest rate of 0.35% over the US$ LIBOR per annum, and a seven-year US$200 million tranche , with an interest rate of 0.44% over the US$ LIBOR per annum.

In February 2004, our operating entity, CUCL, entered into a US$500 million term loan facility with 12 financial institutions, which is repayable in three years at an interest rate of 0.40% over the US$ LIBOR per annum.

Contractual Obligations and Commercial Commitments

The following tables set forth the amount of our outstanding contractual cash obligations as of December 31, 2004.

	Payments Due by Period (RMB in millions)						
Contractual Obligations	**Total**	**Due in 2004**	**Due in 2005**	**Due in 2006**	**Due in 2007**	**Due in 2008**	**Due after 2008**
Long-term bank Loans[1]	37,223	11,086	10,227	10,439	2,639	1,014	1,818
Finance lease obligations[2]	1,427	938	359	48	7	6	69
Capital Commitments[3]	6,537	6,537					
Operating Leases[3][4]	9,663	6,681	622	507	390	396	1,068
Other Commitments[3][5]	1,968	1,968					
Total obligations	56,818	27,210	11,208	10,994	3,036	1,416	2,955

(1) See consolidated financial statements, Note 27 Long-term Bank Loans .

(2) See consolidated financial statements, Note 28 Obligations Under Finance Leases .

(3) See consolidated financial statements, Note 36 Contingencies and Commitments .

(4) The operating leases commitment as disclosed above include the CDMA network capacity leasing arrangement entered into with Unicom Group and its subsidiary Unicom Horizon by our wholly-owned subsidiaries, CUCL (including Unicom New Century, which was merged into CUCL on July 20, 2004) and Unicom New World, in our cellular service areas. See Critical Accounting Policies Lease of CDMA Network Capacity under Item 5; B. Business OverviewCellular Services CDMA Cellular Services– Our Lease of CDMA Networks from Unicom Group under Item 4, B. Related Party TransactionsLeasing of CDMA Network Capacity under Item 7 and Note 36(b) Contingencies and Commitments Operating Lease Commitment to the consolidated financial statements for details.

(5) Other commitments represented our commitment to purchase CDMA handsets from vendors. See Note 36(c) Contingencies and Commitments Commitment to purchase CDMA handsets to the consolidated financial statements for details.

Off-balance Sheet Arrangements

As of December 31, 2004, we did not have any off-balance sheet arrangements.

Capital Expenditures

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	For the years ended December 31,		
	2003	2004	2005
	(RMB in billions)		
Cellular[1]	8.91	6.40	7.59
Long distance, data and Internet	2.13	1.34	1.22
Transmission network[2]	4.55	3.06	3.05
Paging[3]	0.04	–	
Others[4]	4.13	7.59	6.37
Total	19.76	18.39	18.23

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(1) The capital expenditures for 2003 reflect capital expenditures for our cellular business in 21 provinces, municipalities and autonomous regions; and capital expenditures for 2004 onwards represent 30 provinces, municipalities and autonomous regions, including the 9 provinces and autonomous regions which we acquired at the end of 2003.

(2) Expenditures on transmission network refers to investment in the inter-province and intra-province backbone transmission network, the local network and the access network.

(3) We sold the paging business to Unicom Group on December 31, 2003.

(4) Other expenditures represent investment in telecom equipment buildings, supporting systems and miscellaneous items.

Capital expenditures in 2004 totaled RMB18.39 billion. Capital expenditures attributable to the GSM cellular business, the long distance, data and Internet businesses, the transmission network and other projects were RMB6.40 billion, RMB1.34 billion, RMB3.06 billion, and RMB7.59 billion, respectively. Expenditures for other projects were mainly related to the set-up of the billing, customer service and information system, office building, construction of integrated access network and miscellaneous purchases.

Projected capital expenditures for 2005 is RMB18.23 billion, which will be used mostly for improving the GSM network and constructing network infrastructure.

We expect to primarily fund our capital expenditure needs with cash generated from operating activities. See D. Risk Factors Risks Relating to Our Business Our inability to fund our capital expenditure requirements may adversely affect our growth and profitability under Item 3.

US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with HK GAAP, which differs in certain material respects from US GAAP. Significant differences relate primarily to the effect of the acquisitions of Unicom New Century, Unicom New World and Unicom International and the sale of Guoxin Paging, treatments of the upfront non-refundable revenue and the related direct incremental costs, employees housing benefits, revaluation of properties performed in connection with the reorganization, impairment of long-lived assets and goodwill, and additional disclosure requirements for share options scheme and measurement of costs in investment in equity securities. Reconciliation between HK GAAP and US GAAP which affect our net income and shareholders equity arising from the aforementioned differences are included in Note 40 to the consolidated financial statements included in this annual report. In addition, additional disclosures on the condensed financial information under US GAAP, including condensed statements of income, changes in shareholders equity and cash flows information, as well as condensed balance sheets information and other additional financial information which have been restated for relevant periods presented to reflect the impact of the effects of the acquisitions of Unicom New Century, Unicom New World and Unicom International and the sale of Guoxin Paging under common control are included in Note 40 to the consolidated financial statements presented in this annual report.

Item 6. Directors, Senior Management and Employees

A. **Directors and Senior Management**

The following table sets forth certain information concerning our current directors and executive officers.

Name	Age	Position
Chang Xiaobing	48	Chairman of the Board of Directors; Executive Director; Chief Executive Officer
Shang Bing	49	Executive Director; President
Tong Jilu	47	Executive Director; Chief Financial Officer
Zhao Le	49	Executive Director; Vice President
William Lo Wing Yan	44	Executive Director; Vice President
Ye Fengping	41	Executive Director; Vice President
Liu Yunjie	62	Non-Executive Director
Wu Jinglian	75	Independent Non-Executive Director
Shan Weijian	51	Independent Non-Executive Director
Linus Cheung Wing Lam	56	Independent Non-Executive Director

Chang Xiaobing was appointed in December 2004 as an Executive Director, Chairman of the Board of Directors and Chief Executive Officer of our company. Mr. Chang, a professor level senior engineer, graduated in 1982 from the Nanjing Institute of Posts and Telecommunications with a B.S. degree in telecommunications engineering and received an MBA degree from Tsinghua University in 2001. From 1992 to 2000, Mr. Chang served as a Deputy Director of the Nanjing Municipal Posts and Telecommunications Bureau of Jiangsu PT, a Deputy Director General of the Directorate General of Telecommunications, or DGT, of the MPT and a Deputy Director General and Director General of the Department of Telecommunications Administration of the MII. From 2000 to October 2004, Mr. Chang served as Vice President of China Telecom Group and, since 2002, an executive director and President of China Telecom Corporation Limited. Mr. Chang was appointed the Chairman of Unicom Group in November 2004. Mr. Chang also serves as the Chairman of the A Share Company and CUCL, respectively. Mr. Chang has 22 years of operational and managerial experience in the telecommunications industry in China.

Shang Bing was appointed in November 2004 as an Executive Director and President of our company responsible for our day-to-day management and operations. Mr. Shang, a senior economist, graduated in 1982 from Shenyang Chemical Industry Institution with degree in Chemical Industry and received an MBA degree from New York State University of USA. From 1986 to 1998, Mr. Shang served as a Director of Industrial Technology Development Centre in Liaoning Province, Deputy General Manager and General Manager of Economic Technology Development Company in Liaoning Province. Mr. Shang joined Unicom Group in August 1998. From 1998 to 2001, Mr. Shang served as Deputy General Manager and General Manager of Unicom Group Liaoning Branch. Mr Shang was appointed as Vice President of Unicom Group in March 2001 and subsequently became a Director and Vice President of Unicom Group in September 2003. Mr. Shang was appointed the President of Unicom Group in November 2004. At present, Mr. Shang is also a Director of Unicom Group, a Director and President of the A Share Company and a Director and President of CUCL. Mr. Shang has extensive management experience and knowledge in telecommunications operations.

Tong Jilu was appointed in February 2004 as an Executive Director and Chief Financial Officer of our company. He assists the President in handling issues relating to finance. Mr. Tong graduated in 1987 from the Department of Economic Management at the Beijing University of Posts and Telecommunications. He holds a Master Degree in International Management from National University of Australia; and is an Executive Director of the Association of Chief Accountants in China. From August 1989 to October 1998, he served as Chief Economist, Deputy Director and later Director of the Finance Bureau of the Posts and Telecommunications Administration of Liaoning Province. From November 1998 to June 2000, Mr. Tong served as Deputy Director General of the Posts and Telecommunications Administration and the Posts Office of Liaoning Province. Mr. Tong joined Unicom Group in July 2000 and served as Chief Accountant of Unicom Group from July 2000 to February 2001. Since March 2001, Mr. Tong has served as Vice President of Unicom Group. He is now a Director and Chief Accountant of Unicom Group, a Director of A Share company, and a Director and Vice President of CUCL. Mr. Tong has extensive experience in telecommunications management and finance management of listed companies.

Zhao Le was appointed in February 2004 as an Executive Director and Vice President of our company. He assists the President in managing day-to-day operations. Mr. Zhao is a senior engineer, graduated in 1989 from the Schools of Economics & Management at Tsinghua University with Master Degree in Industrial Management. From 1990 to 1992, Mr. Zhao served as the Station-In-Charge of the Earth Station of Satellite Communication of Long Distance Telecommunication Bureau of Shanghai. From 1992 to 1994, Mr. Zhao served as Deputy Chief Economist of Long Distance Telecommunication Bureau of Shanghai. From 1995 to 1998, Mr. Zhao served as Director of the Planning Department of the Posts and Telecommunications Administration of Shanghai. Mr. Zhao joined Unicom Group since 1999. From 1999 to 2003, he served as General Manager of China Unicom Shanghai Branch. Mr. Zhao is now the Chairman of China United Telecommunications (Hong Kong) Ltd., Executive Director and Vice President of China Unicom (Hong Kong) Group Limited and a Director of Unicom International. Mr. Zhao has been in the management role of telecommunications operations for a long period and has extensive telecommunications management experience.

William Lo Wing Yan was appointed in July 2002 as an Executive Director and Vice President of our company. Mr. Lo assists the President in handling investor relations and issues relating to international co-operation. Mr. Lo graduated from Cambridge University in 1987, with a PhD degree in Genetic Engineering. From 1988 to 1990, Mr. Lo was a management consultant with McKinsey & Company. From 1994 to 1998, Mr. Lo was the Founding Managing Director of Hongkong Telecom IMS Limited. From 1998 to 1999, Mr. Lo served as Chief Executive Officer of Citibank s Global Consumer Banking Business for Hong Kong and Macau. Mr. Lo serves as a non-executive director on the board of a number of publicly listed companies in Hong Kong and New York, including Softbank Investment International Ltd, Vartronix International Ltd, Ocean Grand Chemicals Holdings Ltd, Superdata Software Holdings Ltd, I.T Ltd, Capital Publications Ltd, Panorama International Holdings Ltd and Nam Tai Electronics, Inc. In 1999, Mr. Lo was appointed as a Justice of the Peace (JP) of Hong Kong. In 2003, Mr. Lo was appointed as Committee Member of Shantou People s Political Consultative Conference. Mr. Lo has extensive work experience and management expertise in the areas of information technology, telecommunications and banking industry.

Ye Fengping was appointed in January 2003 as an Executive Director and Vice President of our company. Mr. Ye assists the President in handling general administration and media relations. Mr. Ye, a senior engineer, graduated from Nanjing Posts and Telecommunications Institution in 1984, with a major in Telecommunications Engineering and obtained a Master of Business Administration degree from the University of Minnesota s Carlson School in 2004. From 1984 to 1998, Mr. Ye worked for the Shenzhen Posts and Telecommunications Bureau and once served as Deputy Department Head in the Materials Management Department and General Manager of the Materials Supply Company of the Bureau. From 1998 to 2000, Mr. Ye worked for the Shenzhen Telecommunications Bureau as Chief of the Corporate Development Department. Mr. Ye joined China Unicom in April 2000 as Deputy General Manager and later General Manager of China Unicom Corporation Limited s Shenzhen Branch. He also served as Deputy General Manager of China Unicom Corporation Limited s Guangdong Branch and General Manager of the Sales and Marketing Department of Unicom Group. Currently, Mr. Ye is also a Director and President of Unicom International. Mr. Ye has over twenty years of experience in the telecommunications industry and extensive experience in marketing planning and management.

Liu Yunjie was appointed in February 2004 as a Non-Executive Director of our company. Mr. Liu is a professor level senior engineer and graduated from the Department of Applied Physics at Beijing University in 1968. From 1983 to 1995, Mr. Liu served as Deputy Director General and later Director General of the Institute of Data Communication Research of the MPT. From 1995 to 1998, Mr. Liu served as Deputy Director General of the Directorate General of Telecommunications and as Director General of the Bureau of Data Communications of the MPT. Mr. Liu was also President of the Institute of Postal Science Research and Planning of the MPT from 1998 to 1999. Since April 1999, Mr. Liu has served as the Chief Engineer and later Vice President of Unicom Group. Mr. Liu was Vice President of our company from May 2000 to January 2004. He is now a director of the A Share Company. Mr. Liu has extensive experience in telecommunications technology and management, particularly in the area of data communications.

Wu Jinglian was appointed in April 2000 as an Independent Non-Executive Director of our company. Mr. Wu is a senior researcher at the Development Research Center of the State Council (DRC) and a professor at the Graduate School of the Chinese Academy of Social Sciences and China Europe International Business School (CEIBS). Mr. Wu graduated from Fudan University, and was previously an Executive Director of the DRC and Deputy Director of the Programming Office for Economic Reform of the State Council. Mr. Wu has also been a visiting scholar at Yale University, a visiting professor at the Asia-Pacific Research Center of Stanford University and a visiting researcher at the Massachusetts Institute of Technology.

Shan Weijian was appointed in May 2003 as an Independent Non-Executive Director of our company. Mr. Shan is the Co-Managing Partner of Newbridge Capital. Mr. Shan serves on the boards of Bank of China (Hong Kong), Korea First Bank, Taiwan Cement Corporation International, Baoshan Iron and Steel, among others. Before joining Newbridge, Mr. Shan was a Managing Director at J.P. Morgan. Prior to J.P. Morgan, he was a professor at the Wharton School of University of Pennsylvania. His earlier employers include the World Bank, Grahman and James, a law firm based in San Francisco, and Beijing University of International Business and Economics. Mr. Shan holds a Ph.D. from the University of California-Berkeley.

Linus Cheung Wing Lam was appointed in May 2004 as an Independent Non-Executive Director of our company. Prior to his appointment, Mr. Cheung was Deputy Chairman of PCCW Limited. Prior to the merger of Pacific Century Cyberworks Limited and Cable & Wireless HKT Limited (Hongkong Telecom), Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung also worked at Cathay Pacific Airways for 23 years before departing as Deputy Managing Director. In 1990 he was appointed an Official Justice of the Peace and in 1992 he was appointed a Non-official Justice of the Peace. Mr. Cheung is currently a member of the Chinese People s Political Consultative Conference for the Tianjin Municipal Government. He received a bachelor s of social science degree with honors and a diploma in Management Studies from the University of Hong Kong. Mr. Cheung is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

B. Compensation

The aggregate compensation paid by us to our directors and executive officers as a group in 2004 was approximately RMB16.64 million, including retirement and other benefits. Each of our executive directors and executive officers enters into a bonus agreement with us that ties the amount of bonus the director or officer will receive at the end of a year to our operating results of the year and the job performance of the director or officer. Some of our directors and executive directors also hold options to purchase shares in our company. See E. Share Ownership below for detailed descriptions of our share option schemes and options granted to our directors and executive officers as well as compensation for the year 2004.

C. **Board Practices**

General

Pursuant to our Articles of Association, at each annual general meeting, one-third of our directors retire from office by rotation except for any director holding office as Chairman or Chief Executive Officer. The retiring Directors are eligible for re-election. The Board may at any time appoint a new director to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreements. The following table sets forth certain information concerning our current directors and former directors who served as directors in 2004.

Name	Appointment Date	Re-appointment Date	Resignation Date
Current Directors			
Chang Xiaobing	December 21, 2004		
Shang Bing	November 5, 2004	May 12, 2005	
Tong Jilu	February 1, 2004	May 12, 2004	
Zhao Le	February 1, 2004	May 12, 2004 and May 12, 2005	
Lo Wing Yan, William	July 8, 2002	May 12, 2003 and May 12, 2004	
Ye Fengping	January 2, 2003	May 12, 2003 and May 12, 2004	
Liu Yunjie	February 1, 2000	May 12, 2004	
Cheung Wing Lam, Linus	May 12, 2004		
Wu Jinglian	April 20, 2000	May 13, 2002, May 12, 2004 and May 12, 2005	
Shan Weijian	May 12, 2003	May 12, 2005	
Former Directors			
Wang Jianzhou			November 5, 2004
Shi Cuiming			February 1, 2004
Ge Lei			February 1, 2004
Lee Hon Chiu			May 12, 2004
Craig O. McCaw			May 12, 2005
C. James Judson (Alternate Director to Craig O. McCaw)			May 12, 2005

Audit Committee

The audit committee reviews and supervises our financial reporting process and internal financial controls. The duties of the audit committee include the following:

- considering and approving the appointment, resignation and removal of our external auditor and the auditor s fees;
- reviewing our interim and annual financial statements and disclosure before submission to the board of directors;
- discussing with the auditor any problems and reservations arising from the audit of the interim and final results;
- reviewing any correspondence from the auditor to the management and the responses of the management; and
- reviewing the relevant reports concerning our internal controls and procedures.

The Board of Directors recently approved certain amendments to the duties of the audit committee, including strengthening of responsibilities in the following areas:

- supervising the external auditor, who will directly report to the committee;
- pre-approving the audit and non-audit services to be provided by the external auditor, and determining whether any non-audit services would affect the independence of the auditor; and
- discussing with the management the timing and procedures for the rotation of the partner of the auditing firm responsible for the audit of our company and the partner responsible for the review of audit-related documents.

As of May 31, 2005, the members of the audit committee are Shan Weijian, Wu Jinglian and Linus Cheung Wing Lam.

Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of share options and other matters relating to compensation. In particular, the remuneration committee makes recommendations to the Board on executive compensation. The primary duties of the remuneration committee are to make recommendations to the Board regarding the remuneration structure of the executive directors and to determine specific remuneration packages for the executive directors on behalf of the board. The remuneration committee is also responsible for operating our employee share option scheme and any other incentive scheme as they apply to the executive directors, including determining the granting of options to executive directors. As of May 31, 2005, the members of the remuneration committee are Wu Jianlian, Chairman of the committee, Liu Yunjie and Linus Cheung Wing Lam.

D. **Employees**

As of December 31, 2004, we had 39,589 employees, which was similar to the 38,728 employees of our company at the end of 2003 (including employees in the nine provinces, autonomous regions and municipalities we acquired through Unicom New World at the end of 2003). These employees are classified by function as follows:

By Function	**Number of Employees**
Management and administration	6,267
Other general administration	7,035
Marketing and sales	11,749
Technical, engineering and network maintenance	10,828
Retail and customer service	1,362
General support	2,348
Total	39,589

By Business Segment	**Number of Employees**
Cellular	33,141
GSM	22,297
CDMA	10,844
Long distance	2,181
Data and Internet	4,267
Total	39,589

As of December 31, 2004, we also employed approximately 62,600 temporary employees.

E. Share Ownership

As of May 31, 2005, our directors and executive officers as a group do not own any shares in our company.

As of May 31, 2005, our directors and executive officers as a group hold options for 7,519,400 shares, or less than 0.1% of our issued and outstanding share capital, including the following options granted under our pre-global offering share option scheme and share option scheme:

Options granted under the share option scheme

Name	Number of Shares Covered		Expiration Date	Exercise Price	Consideration Paid	Compensation for 2004 (RMB)
Chang Xiaobing[1]	526,000	*	December 20, 2010	HK$6.20	HK$1.00	77,000
Shang Bing[2]	292,000		July 9, 2008	HK$6.18	HK$1.00	553,000
	292,000		May 20, 2009	HK$4.30	HK$1.00	
	292,000	*	July 19, 2010	HK$5.92	HK$1.00	
	128,000	*	December 20, 2010	HK$6.20	HK$1.00	
Tong Jilu	292,000		July 9, 2008	HK$6.18	HK$1.00	2,562,000
	292,000		May 20, 2009	HK$4.30	HK$1.00	
	292,000		June 21, 2010	HK$15.42	HK$1.00	
	292,000	*	July 19, 2010	HK$5.92	HK$1.00	
Zhao Le	136,000 204,000 272,000	 *	July 9, 2008 May 20, 2009 July 19, 2010	HK$6.18 HK$4.30 HK$5.92	HK$1.00 HK$1.00 HK$1.00	1,996,000
Lo Wing Yan, William	176,000 262,000	 *	May 20, 2009 July 19, 2010	HK$4.30 HK$5.92	HK$1.00 HK$1.00	2,392,000
Ye Fengping	132,000 204,000 136,000 262,000		July 9, 2008 May 20, 2009 June 21, 2010 July 19, 2010	HK$6.18 HK$4.30 HK$15.42 HK$5.92	HK$1.00 HK$1.00 HK$1.00 HK$1.00	2,177,000
Liu Yunjie	292,000 292,000	 *	May 20, 2009 July 19, 2010	HK$4.30 HK$5.92	HK$1.00 HK$1.00	292,000
Wu Jinglian	292,000 292,000 292,000	 *	July 9, 2008 May 20, 2009 July 19, 2010	HK$6.18 HK$4.30 HK$5.92	HK$1.00 HK$1.00 HK$1.00	319,000
Shan Weijian	292,000 292,000	 *	May 20, 2009 July 19, 2010	HK$4.30 HK$5.92	HK$1.00 HK$1.00	319,000
Cheung Wing Lam, Linus	292,000	*	July 19, 2010	HK$5.92	HK$1.00	203,000
Wang Jianzhou[3][8]	420,000 420,000 526,000	 *	July 9, 2008 May 20, 2009 July 19, 2010	HK$6.18 HK$4.30 HK$5.92	HK$1.00 HK$1.00 HK$1.00	2,214,000
Craig O. McCaw[4][8]	292,000 292,000 292,000	 *	July 9, 2008 May 20, 2009 July 19, 2010	HK$6.18 HK$4.30 HK$5.92	HK$1.00 HK$1.00 HK$1.00	319,000

Shi Cuiming (5)(8)	396,000 396,000	July 9, 2008 May 20, 2009	HK$6.18 HK$4.30	HK$1.00 HK$1.00	3,073,000
Ge Lei (6)(8)	292,000 292,000	July 9, 2008 May 20, 2009	HK$6.18 HK$4.30	HK$1.00 HK$1.00	27,000
Lee Hon Chiu (7)(8)	292,000 292,000	July 9, 2008 May 20, 2009	HK$6.18 HK$4.30	HK$1.00 HK$1.00	116,000

(1) Mr. Chang was appointed as Chairman and Chief Executive Officer of our company in December 2004.

(2) Mr. Shang was appointed as Executive Director and President of our company in November 2004.

(3) Mr. Wang resigned as Chairman, Chief Executive Officer and President of our company on November 5, 2004.

(4) Mr. McCaw resigned as director of our Company on May 12, 2005.

(5) Mr. Shi Cuiming resigned as Executive Director and Executive Vice President on February 1, 2004.

(6) Mr. Ge Lei resigned as Non-Executive Director on February 1, 2004.

(7) Mr. Lee Hon Chiu resigned as Independent Non-Executive Director on May 12, 2004.

(8) For the directors who resigned during the year 2004, the numbers of options indicated represent the numbers of options held by the respective directors as of their dates of resignation.

* Granted in 2004.

Options granted under the pre-global offering share option scheme

Name	Number of Shares Covered	Expiration Date	Subscription Price	Consideration Paid
Shang Bing	204,400	June 21, 2010	HK$15.42	HK$1.00
Liu Yunjie	292,600	June 21, 2010	HK$15.42	HK$1.00
Zhao Le	204,400	June 21, 2010	HK$15.42	HK$1.00
Wang Jianzhou[(1)]	396,200	June 21, 2010	HK$15.42	HK$1.00
Shi Cuiming[(2)]	396,200	June 21, 2010	HK$15.42	HK$1.00
Ge Lei[(3)]	292,600	June 21, 2010	HK$15.42	HK$1.00

(1) Mr. Wang resigned as Chairman, Chief Executive Officer and President of our company on November 5, 2004.

(2) Mr. Shi Cuiming resigned as Executive Director and Executive Vice President on February 1, 2004.

(3) Mr. Ge Lei resigned as Non-Executive Director on February 1, 2004.

Stock Incentive Schemes

We retained a compensation consulting firm to help us design stock incentive schemes that align the interests of our management and employees with those of our shareholders and link their compensation with our operating results and share performance.

Share Option Scheme. We adopted a share option scheme on June 1, 2000 and amended the scheme on May 13, 2002. The amended scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of share options to a connected person (as defined in the Listing Rules of the Hong Kong Stock Exchange) of Unicom requires approval by our independent non-executive directors, excluding any independent non-executive director who is the grantee of the option. We plan to grant options that cover a total number of ordinary shares not exceeding 10% of the total number of our issued and outstanding shares as of May 13, 2002. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date. The subscription price of a share in respect of any particular option granted under this share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares on the Hong Kong Stock Exchange on the grant date in respect of such option; and (iii) the average closing price of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the grant date. As of May 31, 2005, 6,818,000 options granted by us were outstanding and held by 10 directors and approximately 2,500 of our employees. As of May 31, 2005, 9,226,000 options with an exercise price of HK$6.18, 164,000 options with an exercise price of HK$5.92, 88,000 options with an exercise price of HK$4.65 and 6,891,200 options with an exercise price of HK$4.30 had been exercised.

Pre-Global Offering Share Option Scheme. We also adopted a pre-global offering share option scheme on June 1, 2000. As of May 31, 2005, 701,400 options granted by us were outstanding and held by 3 directors and approximately 250 of our employees. We do not expect to grant further options under this scheme. On May 13, 2002, this scheme was amended along with the amendment of the share option scheme described above. The amended terms of the pre-global offering share option scheme are substantially the same as the share option scheme, except for the following:

The subscription price of a share in respect of any particular option granted under the pre-global offering share option scheme is HK$15.42, the offer price in the Hong Kong public offering portion of our initial public offering, excluding brokerage fees and transaction levy.

The period during which an option may be exercised commences two years from the date of grant and ends 10 years from June 22, 2000.

As of December 31, 2004, no options granted under this scheme had been exercised.

Item 7. Major Shareholders and Related Party Transactions

A. **Major Shareholders**

As of May 31, 2005, our controlling shareholder, Unicom Group, through its 17.91% direct interest in Unicom BVI, and its majority-owned subsidiary, China United Telecommunications Corporation Limited, which in turn holds 82.09% of Unicom BVI, beneficially owned 9,725,000,020 shares of Unicom, or 77.37% of our total outstanding shares. See A. History and Development of the Company under Item 4 above. Unicom Group is controlled by the Ministry of Finance and a group of approximately fifteen companies, most of which are state-owned enterprises in China. Shares owned by Unicom Group do not carry voting rights different from our other issued shares.

As of May 31, 2005, most of our record shareholders were located outside of the United States. In addition, as of May 31, 2005, there were approximately 24 million ADSs outstanding, each representing 10 shares and together representing 1.90% of our total outstanding shares or 8.44% of our total outstanding shares not held by our controlling shareholder.

B. **Related Party Transactions**

Principal transactions between us and our controlling shareholder, Unicom Group, include the following categories:

- agreements relating to the restructuring in connection with our initial public offering;
- agreements relating to the restructuring in connection with the acquisition of Unicom New Century from Unicom Group;
- agreements relating to the acquisition of Unicom New World from Unicom Group and the sale of Guoxin Paging to Unicom Group;
- agreements relating to the acquisition of Unicom International from Unicom Group;
- provision of ongoing telecommunications and ancillary services and premises;
- leasing of CDMA network capacity by us from Unicom Group and related interconnection and roaming arrangements; and
- guarantee of our bank loans by Unicom Group and short-term loans from Unicom Group.

Agreements Relating to the Restructuring in Connection with Our Initial Public Offering

The Reorganization Agreement

In relation to the restructuring in connection with our initial public offering, our wholly-owned subsidiary, CUCL, entered into a reorganization agreement with Unicom Group dated April 21, 2000. This agreement includes the following terms:

(a) Unicom Group s agreement to transfer to CUCL the assets and liabilities attributable to the businesses as described A. History and Development of the Company The Restructuring of Unicom Group and Our Initial Public Offering in 2000 under Item 4,

(b) mutual warranties and indemnities given by Unicom Group and CUCL in relation to the assets and liabilities transferred to CUCL and in relation to the restructuring,

(c) undertakings by Unicom Group in favor of CUCL, including undertakings:

to hold and maintain all licenses received from the MII in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;

subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;

to arrange for us to participate in its international roaming arrangements;

not to engage in any business which competes with our businesses except for the existing competing businesses of Unicom Group;

to grant us a right of first refusal in relation to any government authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service;

in order to minimize the risk of competition with our Internet business, to take steps to dispose of its interest in Beijing Shi Hua within twenty-four months following receipt of a notification from us that we intend to provide Internet services which we consider similar to those provided by Beijing Shi Hua;

to ensure that we can continue to use premises for which title documentation cannot be obtained at this time for a period of three years following the restructuring;

not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or CUCL, which would result in us or CUCL no longer constituting majority owned subsidiaries of Unicom Group; and

not to seek an overseas listing for any of its businesses or the businesses of its subsidiaries in which we are engaged or may engage in the future except through us,

(d) an option granted by Unicom Group to us to acquire Unicom Group s interest in any telecommunications interest such as Unicom Paging, Unicom Xingye and Unicom Group s CDMA telephony license and business, and

(e) a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

Equity Transfer Agreement

In relation to the restructuring in connection with our initial public offering, we, Unicom Group, China Unicom (Hong Kong) Group Limited and China Unicom (BVI) Limited entered into an equity transfer agreement, dated April 21, 2000. This agreement includes the following terms:

(a) Unicom Group s agreement to transfer all of its equity interest in CUCL to us;

(b) our agreement to issue shares to China Unicom (BVI) Limited, China Unicom (BVI) Limited s agreement to issue shares to China Unicom (Hong Kong) Group Limited and China Unicom (Hong Kong) Group Limited s agreement to issue shares to Unicom Group;

(c) Unicom Group s and our agreement that:

we shall be entitled to apply in Hong Kong, Macau, Taiwan and in all places outside of China for all trademarks incorporating the word Unicom in English and Chinese and the Unicom logo; and

once these trademarks have been registered, we will sublicense these trademarks to Unicom Group, CUCL, Guoxin Paging and Guoxin Paging s subsidiaries on a royalty-free basis; and

(d) warranties and indemnities given by Unicom Group to us in relation to CUCL.

Trademark Agreement

Unicom Group is the registered owner of the Unicom trademark in English and the trademark bearing the Unicom logo, which are registered at the People s Republic of China State Trademark Bureau. Under a PRC trademark license agreement entered into on May 25, 2000 between Unicom Group and CUCL, CUCL and our affiliates were granted the right to use these trademarks on a royalty-free basis for an initial period of five years, renewable at the option of CUCL. Under the terms of this agreement, we and our affiliates are the exclusive licensees of these trademarks provided that Unicom Group may also license these trademarks to any of its existing or future subsidiaries. Unicom Group also agreed to license to CUCL any trademark that it registers in China in the future which incorporates the word Unicom.

CUCL entered into a service agreement with Unicom Paging on August 1, 2001. Under the terms of the agreement, both parties agreed to license their respective trademarks and logos to each other on equitable terms and free of charge.

Agreements relating to the Restructuring in connection with Acquisition of Unicom New Century from Unicom Group

The Reorganization Agreement

In relation to the restructuring in connection with the acquisition by us of Unicom New Century from Unicom Group, Unicom Group entered into a reorganization agreement with Unicom New Century, dated November 18, 2002. This agreement includes the following terms:

(a) Unicom Group s agreement to transfer to Unicom New Century the assets and liabilities attributable to the businesses as described in A. History and Development of the Company – Restructuring and Acquisition of Unicom New Century under Item 4;

(b) mutual warranties and indemnities given by Unicom Group and Unicom New Century in relation to the assets and liabilities transferred to Unicom New Century and in relation to the restructuring; and

(c) undertakings by Unicom Group in favor of Unicom New Century, including undertakings:

to hold and maintain all licenses received from the MII in connection with any of the transferred businesses for the benefit of Unicom New Century, and to allocate spectrum and to provide other resources to Unicom New Century;

subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for the benefit of Unicom New Century such governmental or regulatory licenses, consents, permits or other approvals as Unicom New Century may require to continue to operate its businesses; and

not to engage in any business which competes with our businesses except for the existing competing businesses of Unicom Group.

Conditional Sale and Purchase Agreement

In relation to the acquisition by us of Unicom New Century from Unicom Group, we and Unicom BVI entered into a conditional sale and purchase agreement, dated November 20, 2002. This agreement includes the following terms:

(a) Unicom BVI s agreement to transfer all of its equity interest in Unicom New Century (BVI) Limited, which holds 100% of the equity interest in Unicom New Century, to us;

(b) our agreement to pay Unicom BVI a cash consideration in the amount of HK$4,523,181,304 (approximately RMB4.8 billion); and

(c) warranties given by Unicom BVI to us in relation to Unicom New Century.

Trademark Agreement

Under a trademark license agreement entered into on November 20, 2002 between the A Share Company and Unicom New Century, Unicom New Century and our affiliates were granted the right to use the Unicom trademarks and logo on a royalty-free basis for an initial period of ten years, renewable for a further ten-year term at the option of Unicom New Century. The parties will negotiate the royalty payments during the renewed term; however, in no event will such payment exceed the royalty payments, if any, paid by Unicom Group s other wholly- or majority-owned subsidiaries. The A Share Company has also agreed to license to Unicom New Century any trademark that Unicom Group registers in China in the future which incorporates the word Unicom.

Agreements relating to the Acquisition of Unicom New World from Unicom Group and the Sale of Guoxin Paging to Unicom Group

The Reorganization Agreement

In relation to the restructuring in connection with the acquisition by us of Unicom New World from Unicom Group, Unicom Group entered into a reorganization agreement with Unicom New World, dated November 4, 2003. This agreement includes the following terms:

(a) Unicom Group s agreement to transfer to Unicom New World the assets and liabilities attributable to the businesses as described under A. History and Development of the Company—Acquisition of Unicom New World and Sale of Guoxin Paging under Item 4;

(b) mutual warranties and indemnities given by Unicom Group and Unicom New World in relation to the assets and liabilities transferred to Unicom New World and in relation to the restructuring; and

(c) undertakings by Unicom Group in favor of Unicom New World, including undertakings:

to hold and maintain all licenses received from the MII in connection with any of the transferred businesses for the benefit of Unicom New World, and to allocate spectrum and to provide other resources to Unicom New World;

subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for the benefit of Unicom New World such governmental or regulatory licenses, consents, permits or other approvals as Unicom New World may require to continue to operate its businesses; and

not to engage in any business which competes with our businesses except for the existing competing businesses of Unicom Group.

Conditional Sale and Purchase Agreement with respect to Unicom New World

In relation to the acquisition by us of Unicom New World from Unicom Group, we and Unicom BVI entered into a conditional sale and purchase agreement, dated November 20, 2003. This agreement includes the following terms:

(a) Unicom BVI s agreement to transfer all of its equity interest in Unicom New World (BVI) Limited, which holds 100% of the equity interest in Unicom New World, to us;

(b) our agreement to pay Unicom BVI a cash consideration in the amount of HK$3,014,886,000 (approximately RMB3.2 billion); and

(c) warranties given by Unicom BVI to us in relation to Unicom New World.

Conditional Sale and Purchase Agreement with respect to Guoxin Paging

In relation to the sale by us of Guoxin Paging to Unicom Group, CUCL and the A Share Company entered into a conditional sale and purchase agreement, dated November 20, 2003. This agreement includes the following terms:

(a) CUCL s agreement to sell to the A Share Company, and the A Share Company s agreement to acquire from CUCL, all of CUCL s equity interest in Guoxin Paging;

(b) the A Share Company s agreement to pay CUCL a cash consideration in the amount of HK$2,590,917,656 (approximately RMB2.75 billion); and

(c) warranties given by CUCL to the A Share Company in relation to Guoxin Paging.

Trademark Agreement

Under a trademark license agreement entered into on November 20, 2003 between the A Share Company and Unicom New World, Unicom New World and our affiliates were granted the right to use the Unicom trademarks and logo on a royalty-free basis for an initial period of ten years, renewable for a further ten-year term at the option of Unicom New World. The parties will negotiate the royalty payments during the renewed term; however, in no event will such payment exceed the royalty payments, if any, paid by Unicom Group s other wholly- or majority-owned subsidiaries. The A Share Company has also agreed to license to Unicom New World any trademark that Unicom Group registers in China in the future which incorporates the word Unicom.

Agreements relating to the Acquisition of Unicom International from Unicom Group

In relation to the acquisition by us of Unicom International from Unicom Group, we and China Unicom (Hong Kong) Group Limited, which is a indirectly wholly-owned beneficiary of Unicom Group, entered into a conditional sale and purchase agreement, dated July 28, 2004. This agreement includes the following terms:

(a) China Unicom (Hong Kong) Group Limited s agreement to transfer all of its equity interest in Unicom International to us;

(b) our agreement to pay China Unicom (Hong Kong) Group Limited a cash consideration in the amount of HK$37,159,995.77; and

(c) warranties given by China Unicom (Hong Kong) Group Limited to us in relation to Unicom International.

Provision of Ongoing Telecommunications and Ancillary Services and Premises

We had entered into a number of service arrangements with Unicom Group and/or its subsidiaries with respect to provision of ongoing telecommunications and ancillary services between Unicom Group and us, including leasing of satellite transmission capacity, supply of international telecommunication network gateway services, supply of various telephone cards, supply of equipment procurement services, supply of cellular subscriber services, supply of customer services, supply of agency services, leasing of transmission line capacity and interconnection and roaming arrangements, as well as provision of premises.

On March 24, 2005, we and Unicom Group entered into a comprehensive services agreement, or the New Comprehensive Services Agreement, a comprehensive operator services agreement, or the New Comprehensive Operator Services Agreement, and a premises leasing agreement, or the New Guoxin Premises Leasing Agreement, to replace the previous service arrangements between Unicom Group and us.

Each of the New Comprehensive Services Agreement, the New Comprehensive Operator Services Agreement and the New Guoxin Premises Leasing Agreement has an initial term of two years commencing on January 1, 2005 and is renewable for further two-year terms at our option.

Leasing of Satellite Transmission Capacity

We lease satellite transmission capacity from a 95.00% owned subsidiary of Unicom Group. We use this capacity to supplement our long distance network.

That subsidiary of Unicom Group and CUCL previously entered into a satellite transmission channel leasing agreement, dated May 25, 2000. Under that agreement, payments for leasing of satellite transmission capacity were calculated on the basis of tariffs set by the MII. We paid the minimum applicable tariff for the relevant volume and duration less a discount of up to 10%. The discount would not be less than that offered to any third party leasing similar transmission capacity. The total leasing charges for satellite transmission capacity for 2004 were approximately RMB14.15 million.

The New Comprehensive Services Agreement, which replaced the satellite transmission channel agreement, contains similar terms with respect to the lease of satellite transmission capacity.

Supply of International Telecommunication Network Gateway Services

Unicom Group provides us with access to international connections for our international long distance service through its international telecommunication network gateways. CUCL and Unicom Group previously entered into a services agreement, dated May 25, 2000, under which Unicom Group agreed to supply international telecommunication network gateway services to us. Unicom Group has undertaken not to supply international telecommunication network gateway services to third parties. The charges for these services were based on Unicom Group s cost of operation and maintenance of the international telecommunication network gateway facilities, including depreciation, plus a margin of 10% over cost. We retained all revenues generated by our international long distance service. Total charges for the supply of international telecommunication network gateway services in 2004 were approximately RMB17.06 million.

The New Comprehensive Services Agreement contains similar terms with respect to the supply of international telecommunication network gateway services.

Supply of Telephone Cards

Each of CUCL, Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated May 25, 2000, November 20, 2002 and November 20, 2003 respectively, to provide for a telephone cards supply arrangement under which, Unicom Group agreed through its subsidiary, Unicom Xingye, to supply various kinds of telephone cards, including SIM cards, UIM cards, IP telephony cards and rechargeable calling cards, to us. Charges for the supply of these cards were based on the actual cost incurred by Unicom Xingye in supplying the cards plus a margin over cost to be agreed upon from time to time, but in any case not to exceed 20%, subject to specified volume discounts. Under these three services agreements, prices and volumes would be reviewed by the parties on an annual basis. Total charges for the supply of telephone cards for 2004 were approximately RMB1.09 billion.

The New Comprehensive Services Agreement contain similar terms with respect to the supply of telephone cards.

Supply of Equipment Procurement Services

Prior to the restructuring in connection with our initial public offering, Unicom Import and Export Co. Ltd., a 95.0% direct subsidiary of Unicom Group, handled most procurement of foreign and domestic telecommunications equipment and other materials required for construction of Unicom Group s networks. Each of CUCL, Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated May 25, 2000, November 20, 2002 and November 20, 2003 respectively, to provide for this procurement service arrangement under which we were allowed to continue to use Unicom Group s procuring service at the rate of:

0.7% of the contract value in the case of imported equipment, or

0.5% of the contract value in the case of domestic equipment.

These three agreements were amended on November 22, 2004 so that with effect from July 1, 2004, the above rates were lowered as follows:

0.55% of the contract value of those contracts under US$30 million (including US$30 million) and 0.35% of the contract value of those procurement contracts over US$30 million, in the case of imported equipment, or

0.25% of the contract value of those contracts under RMB200 million (including RMB 200 million) and 0.15% of the contract value of those contracts over RMB 200 million, in the case of domestic equipment.

In addition, pursuant to this amendment on November 22, 2004, Unicom Group agreed to indemnify us for any loss caused by any negligence, default, act or omission of Unicom Group or Unicom Import and Export Co. Ltd. up to an amount equal to the total amount of agency services fees paid to Unicom Group under the three agreements. Our total payment to Unicom Group for equipment procurement services for 2004 was approximately RMB17.76 million.

Under the New Comprehensive Services Agreement, Unicom Group agreed to provide us comprehensive procurement services at the same rates as those applied with effect from July 1, 2004 pursuant to the November 22, 2004 amendment mentioned above.

In addition, under the New Comprehensive Services Agreement, Unicom Group has continued to agree to indemnify us for any loss caused by any negligence, default, act or omission of Unicom Group or Unicom Import and Export Co. Ltd. up to an amount equal to the total amount of agency services fees paid to Unicom Group under the New Comprehensive Services Agreement.

Interconnection Arrangements

Our various telecommunication networks interconnect with various telecommunication networks of Unicom Group. CUCL previously entered into two services agreements with Unicom Group, dated May 25, 2000 and November 22, 2001, respectively, and each of Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated November 20, 2002 and November 20, 2003 respectively. These four services agreements provided for our interconnection arrangements with Unicom Group, under which interconnection settlement between Unicom Group s networks and our networks was based on relevant standards established from time to time by the MII. However, in the case of calls between cellular subscribers of different networks in different provinces, settlement was based on either the relevant standards established by the MII or a cost-based internal settlement arrangement applied by Unicom Group prior to the restructuring in connection with our initial public offering, whichever is more favorable to us.

In 2004, interconnection revenue and interconnection expenses derived from the previous arrangements with Unicom Group were approximately RMB193.5 million and RMB40.1 million, respectively.

Under the New Comprehensive Services Agreement, interconnection settlements between Unicom Group s networks and our networks are as follows:

(a) Settlement between the cellular network of both parties

With respect to cellular calls between different provinces, settlement will be made by one of the following two methods that is more favourable to us:

(i) the cellular network from which the outgoing calls originate and the cellular network which receives the incoming calls will each retain 4% of the long distance call fee incurred and the remaining 92% of the long distance call fee will be credited to us;

(ii) pursuant to the settlement standard stipulated in the Notice Concerning the Issue of the Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian [2003] No. 454) promulgated by the MII on October 28, 2003, the cellular network from which the outgoing calls originate and the cellular network which receives the incoming calls will each retain RMB0.06 from the long distance call fee. The remaining long distance call fee will be credited to us.

(b) Other interconnection settlement between the networks of both parties

Both parties agree to conduct settlement in accordance with the relevant provisions in the Notice Concerning the Issue of the Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian [2003] No. 454) promulgated by the MII on October 28, 2003 (and its amendments from time to time).

Roaming Arrangements

We and Unicom Group provide roaming services to each other. In addition, we make our long distance network available to Unicom Group in its implementation of its roaming arrangements with other operators. CUCL previously entered into two services agreements with Unicom Group, dated May 25, 2000 and November 22, 2001, respectively, and each of Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated November 20, 2002 and November 20, 2003 respectively. These four services agreements provided for our roaming arrangements with Unicom Group, under which charges for these roaming services between us and Unicom Group were based on our respective internal costs of providing these services, and would be on no less favorable terms than those available to any third party. We received 50% of Unicom Group s roaming revenue from third party operators for calls using our long distance network.

In 2004, roaming revenue and roaming expenses derived from the previous arrangements with Unicom Group were approximately RMB26.7 million and approximately RMB23.8 million, respectively.

Under the New Comprehensive Services Agreement, the roaming fee arrangements between Unicom Group and us are as follows:

(a) The cellular subscribers using roaming services will pay roaming fees at the agreed rate of RMB0.60 per minute of roaming usage for both incoming and outgoing calls based on MII guidelines.

(i) If our cellular subscribers roam in the service areas of Unicom Group, we will be entitled to receive the roaming fees, which will be apportioned in the following way: (A) RMB0.40 (the rate for local call charges under MII guidelines) will be paid to Unicom Group; and (B) the remaining RMB0.20 will be withheld by us;

(ii) If the cellular subscribers of Unicom Group roam in our service areas, Unicom Group will be entitled to receive the roaming fees, which will be apportioned in the following way: (A) RMB0.56 will be paid to us; and (B) RMB0.04 will be withheld by Unicom Group.

(b) If the network of a third party cellular network operator is made available to the cellular subscribers of Unicom Group pursuant to the international roaming arrangements of Unicom Group, or if the network of Unicom Group is made available to the subscribers of any third party cellular network operator pursuant to such arrangements, we will receive 50% of all roaming revenue to be received under such international roaming arrangements.

Leasing of Transmission Line Capacity

Unicom Group leases fixed-line transmission capacity from CUCL. CUCL previously entered into a services agreement with Unicom Group, dated May 25, 2000, to provide for this transmission line capacity leasing arrangement under which lease charges were based on tariffs stipulated by the MII from time to time less a discount of up to 10%. The discount given by CUCL to Unicom Group must not be more than what CUCL offered to other third party lessees for a similar lease. When new tariffs were adopted by the MII, the discount rate would be reviewed. In 2004, we received from Unicom Group total leasing fees of approximately RMB39 million.

The New Comprehensive Services Agreement contains similar terms with respect to the leasing of transmission line capacity by us to Unicom Group.

Supply of Cellular Subscriber Value-added Services

Prior to the sale of Guoxin Paging to Unicom Group, it provided operator-based value-added services to our cellular subscribers through its paging network, equipment and operators. Such services include the Unicom Assistant services. Following the sale of Guoxin Paging to Unicom Group at the end of 2003, Unicom Group has agreed to provide (through Guoxin Paging) to us cellular subscriber value-added services pursuant to a previous comprehensive operator services agreement dated November 20, 2003. The various local branches of Guoxin Paging and us would agree on the proportion for sharing the revenue derived and actually received by us from such value-added services, provided that the agreed-upon proportion for Guoxin Paging may not be higher than the average agreed-upon proportion for independent value-added telecommunications content providers who provided value-added communications content to us in the same region. The revenue sharing proportions would be adjusted annually.

We made total payment of approximately RMB859 million to Unicom Group in 2004 for its supply of cellular subscriber value-added services.

Under the New Comprehensive Operator Services Agreement, we will retain 40% of the revenue derived and actually received by us from value-added services provided to our subscribers by Unicom Group (through Guoxin Paging) and allocate 60% of such revenue to Guoxin Paging, on the condition that such proportion for Guoxin Paging may not be higher than the average agreed-upon proportion for independent value-added telecommunications content providers who provide value-added communications content to us in the same region.

Supply of Customer Services

Pursuant to a previous comprehensive operator services agreement dated November 20, 2003, Unicom Group has agreed to provide (acting on its own or through Guoxin Paging) to us customer services. These customer services included business inquiries, tariff inquiries, account maintenance, complaints handling, customer interviews and subscriber retention. Service fees payable by us to Unicom Group or Guoxin Paging were calculated on the basis of the costs of the customer service plus a profit margin of no more than 10%. The costs of the customer service were the costs per operator seat multiplied by the number of effectively operating operator seats. The cost per operator seat in economically developed areas, such as Beijing and Shanghai, was the actual cost, i.e., actual wages, administration expenses, operation and maintenance expenses, depreciation of equipment and leasing fees for premises attributable to the customer service in such area for the previous year. The cost per operator seat in other area was agreed upon between the local branches of Guoxin Paging and us, subject to our final confirmation, provided that such cost could not exceed the nationwide (other than Beijing and Shanghai) weighted average of such costs plus 10%. Unicom Group would notify us the number of effectively operating operator seats of each month within 10 days after the end of that month, and then we would confirm that number within five business days based on criteria set forth in the relevant MII regulations. Our total payment to Unicom Group for its supply of customer services in 2004 was RMB525 million.

Under the New Comprehensive Operator Services Agreement, the cost per operator seat in economically developed areas such as Beijing and Shanghai remains to be the actual cost per operator seat, while the cost per operator seat in an area other than economically developed areas will be the lower of the actual cost per operator seat in that area and the nationwide (excluding Beijing and Shanghai) average of actual cost per operator plus 10%. Other than this, the New Comprehensive Services Agreement contains similar terms with respect to the supply of customer services.

Supply of Agency Services

Pursuant to a previous comprehensive operator services agreement dated November 20, 2003, Unicom Group agreed to provide (through Guoxin Paging) to us subscriber development services, including by telephone or through other channels utilizing Guoxin Paging s paging network, equipment and operators. Agency fees payable by us to Unicom Group or Guoxin Paging could not exceed the average of agency fees payable to any third party agent providing subscriber development services to us in the same region. We paid agency fees of approximately RMB9.05 million to Unicom Group in 2004 for its supply of agency services described above.

The New Comprehensive Operator Services Agreement contains similar terms with respect to the supply of agency services.

Mutual Provision of Premises

Unicom Group and CUCL provide to each other premises from time to time pursuant to the services agreement between Unicom Group and CUCL dated May 25, 2000. Unicom Group also provided premises to Unicom New Century and Unicom New World pursuant to services agreements with each of Unicom New Century and Unicom New World dated November 20, 2002 and November 20, 2003, respectively. Other than premises leased from third parties, the rental rates in each case were based on the lower of depreciation costs and market prices for similar premises in that locality, but CUCL could charge Unicom Group market rates for premises leased to Unicom Group. In cases where the premises were leased from a third party, the rental was the amount payable in the head lease. In the case of shared premises, the price was split in proportion to the respective areas occupied by the parties. In connection with our provision of premises to Guoxin Paging, which was effective from January 1, 2004, the rental was based on the higher of depreciation costs and market prices for similar premises in each locality. The net charges for premises leased to us by Unicom Group as offset by our charges for premises leased to Unicom Group for 2004 were RMB25.53 million.

The terms in the New Comprehensive Services Agreement with respect to mutual provision of premises and the terms in the New Guoxin Premises Leasing Agreement with respect to our provision of premises to Guoxin Paging are similar to those in the previous agreements.

Leasing of CDMA Network Capacity

Old CDMA Lease

Our wholly-owned subsidiary, CUCL, entered into a lease agreement on November 22, 2001 with Unicom Group and its subsidiary Unicom Horizon, pursuant to which Unicom Horizon agreed to lease to CUCL capacity on its CDMA network in CUCL s cellular service areas, giving CUCL the exclusive right to operate the CDMA network in CUCL s service areas. The initial term of the lease was one year, renewable each year at CUCL s option. In addition, as part of the acquisition arrangements of Unicom New Century and Unicom New World, Unicom New Century and Unicom New World each also entered into CDMA capacity lease agreements with Unicom Group and Unicom Horizon, on November 20, 2002 and November 20, 2003, respectively. The terms of these leasing arrangements were in all material respects the same as those contained in the CDMA lease agreement entered into by CUCL as described above, except for the amount of leased capacity and the areas in which the capacity is eased. We refer to these three lease agreements as the Old CDMA Leases. Under the Old CDMA Leases, Unicom Horizon agreed to lease capacity on its CDMA network to each of CUCL, Unicom New Century and Unicom New World in their respective cellular service areas. In 2004, our total lease payment under the Old CDMA Leases was RMB6.59 billion.

Under the Old CDMA Leases, Unicom Horizon agreed to plan, finance and construct the CDMA network, including the procurement of all equipment, and to ensure that the CDMA network was constructed in accordance with the detailed specifications and timetable agreed between Unicom Horizon and us. All payments, costs, expenses and amounts paid or incurred by Unicom Horizon that were directly attributable to the construction of the CDMA network form the total network construction cost, which was used in calculating the lease fee payable by us, including:

- construction, installation and equipment procurement costs and expenses,
- survey and design costs,
- investment in technology, software and other intangible assets,
- insurance premiums and capitalized interest on loans,

any taxes levied or paid in respect of the procurement of equipment and the construction of the CDMA network, including import taxes and custom duties, and

all costs incurred in relation to any upgrade of technology.

The Old CDMA Leases required that the network construction cost be verified and appropriate documentation provided to us or our auditors for verification. The lease fee was calculated so as to enable Unicom Horizon to recover its total network construction cost within seven years, together with an internal rate of return of 8%.

We were responsible for the operation, management and maintenance of the CDMA network in accordance with the relevant requirements of the Old CDMA Leases and had the exclusive right to provide CDMA services in our cellular service areas. All operating revenue, including airtime charges, monthly subscription fees, interconnection charges, income from sales of UIM cards and handsets and other income generated from or in connection with the operation of the CDMA network belonged to us. All costs of operating and managing the CDMA network and all maintenance costs of a non-capital nature should be borne by us except that constructed capacity related costs (i.e. those costs of operating and managing the CDMA network which related directly to the constructed capacity on the CDMA network, including the rental fees for stations and base stations and related expenses including water and electricity charges, heating charges and fuel charges for the relevant equipment etc., as well as maintenance costs of a non-capital nature) should be borne by us only to the extent of such part of the costs that corresponded to the proportion of capacity actually leased under the Old CDMA Leases. Such part of the Constructed Capacity Related Costs that corresponded to the proportion of capacity not actually leased under the Old CDMA Leases should be borne by Unicom New Horizon.

In addition to the capacity that we agreed to lease in the first term, subject to giving not less than 180 days prior notice to Unicom Horizon, we could request to lease additional capacity. Unicom Horizon was required to ensure that all capacity which we had so requested was supplied by the due date of delivery of the capacity, provided that, unless otherwise agreed, Unicom Horizon would not be obliged to expand the CDMA network beyond a certain limit. We could not reduce the amount of capacity leased during the initial one-year lease term. However, subject to providing not less than 180 days prior written notice to or with the prior written consent of Unicom Horizon, we could reduce the amount of capacity leased for any additional lease term, provided that we must lease all capacity which we had requested or otherwise committed to lease for at least one year following the date of delivery or renewal of the lease of such capacity.

Subject to certain exceptions, including delay caused by a force majeure event, a material breach of the Old CDMA Leases by us or compliance with applicable laws and regulations, if any capacity was not ready for operational service by the relevant delivery date, then Unicom Horizon should be liable to provide a delay discount to us, equal to the daily lease fee in respect of the relevant capacity multiplied by the number of days of delay, which should be credited against future lease fee payments.

We had the option to purchase the CDMA network, which could be exercised at any time during the initial lease term or any additional lease term of the lease and within one year thereafter. The acquisition price would be negotiated between Unicom Horizon and us, based on the appraised value of the CDMA network determined by an independent assets appraiser in accordance with applicable PRC laws and regulations and taking account of prevailing market conditions and other factors, provided that it would not exceed such price as would, taking into account all lease fee payments made by us to Unicom Horizon and all delay discounts of lease fee, enable Unicom Horizon to recover its total network construction cost, together with an internal rate of return on its investment of 8%. The exercise of the purchase option would be subject to the relevant laws, regulations and listing rules in Hong Kong and the PRC, particularly those governing connected transactions. Title to the CDMA network assets would remain vested in Unicom Horizon until the CDMA network assets were transferred to us following exercise of the purchase option.

In consideration of our entering into the Old CDMA Leases, Unicom Group unconditionally and irrevocably guaranteed the due and punctual performance by Unicom Horizon of its obligations under the Old CDMA Leases. Unicom Group also agreed to indemnify us for any loss suffered as a result of any defect in any of the equipment or any loss caused by any negligence, default, act or omission of Unicom Horizon or Unicom Group under the Old CDMA Leases or in connection with the CDMA network. The aggregate liability of Unicom Group for any claim should not exceed the total amount of lease fee payments made to Unicom Horizon and, where the purchase option had been exercised, the total purchase price paid for the CDMA network. The guarantee and indemnity provided by Unicom Group under the Old CDMA Leases would continue in force until the expiration of the relevant Old CDMA Lease.

We could terminate the Old CDMA Leases by not less than 180 days prior written notice, with effect from the end of any additional term. In addition, Unicom Group or we could terminate an Old CDMA Lease if the other committed any continuing or material breach of the relevant Old CDMA Leases. Unicom Group or Unicom Horizon was not otherwise permitted to terminate the lease.

New CDMA Lease

On March 24, 2005, we entered into a new CDMA lease agreement, or New CDMA Lease, with Unicom Group and its subsidiary Unicom Horizon to replace the Old CDMA Lease. The New CDMA Lease has an initial term of two years commencing January 1, 2005 and may be renewed at our option. The length of each renewed term shall be agreed by all parties to the New CDMA Lease.

Under the New CDMA Lease, Unicom Horizon has agreed to lease all constructed capacity of its CDMA network to us and the lease fee for the CDMA network will be as follows:

in 2005, 29% of the audited annual service revenue generated by our CDMA cellular business, or CDMA Business Income; and

in 2006, 30% of the CDMA Business Income,

provided that the annual lease fee may not be less than a certain minimum level. The minimum lease fee for 2005 will be 90% of the total amount of lease fee paid by us to Unicom Horizon pursuant to the Old CDMA Leases for 2004. The minimum lease fee for 2006 will be 90% of the total amount of lease fee paid by us to Unicom Horizon pursuant to the New CDMA Lease for 2005. The lease fee arrangements for any renewed term of the New CDMA Lease will be subject to negotiations among the parties to the New CDMA Lease.

Subject to certain exceptions, including delay caused by a force majeure event (including natural disasters, national emergencies, civil disturbances, riots, acts of terrorism, industrial disputes and other similar events beyond the control of the parties), a material breach of the New CDMA Lease by us or compliance with applicable laws and regulations, if Unicom Horizon fails to provide any capacity of its CDMA network which affects the provision of services by us, Unicom Horizon shall be liable to provide a discount for delay to us, calculated as follows:

Discount for delay	=	Number of our CDMA subscribers affected by the delay	x	delay period (number of days)	x	ARPU of CDMA subscribers the number of days in the relevant month

In the above formula, number of our CDMA subscribers affected by the delay shall be confirmed by us on the basis of substantive evidence; ARPU of CDMA subscribers shall be the average monthly ARPU figure of the CDMA subscribers in the relevant areas for the three months immediately prior to the delay, as calculated and confirmed by us.

The proportion of the constructed capacity related costs to be borne by us shall be calculated by reference to the actual number of our cumulative CDMA subscribers at the end of the month prior to the occurrence of the costs divided by 90%, as a percentage of the total amount of capacity (expressed in terms of the number of subscribers) constructed on the CDMA network.

The other key terms of the New CDMA Lease, including exclusive operating rights, purchase option, guarantee and indemnity, are substantially similar to those of the Old CDMA Leases.

Guarantee of Our Bank Loans by Unicom Group

As of December 31, 2004, short-term bank loans of approximately RMB3,397 million and long-term bank loans of approximately RMB6,779 million of our operating subsidiaries were guaranteed by Unicom Group. Such guarantees were provided for our benefit without any cost to us.

As of December 31, 2004, there is no outstanding loans from Unicom Group to us.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

See Item 18, Financial Statements .

Legal Proceedings

We are not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

Policy on Dividend Distribution

The objective of our dividend policy is to maximize our shareholders value. The declaration and payment of future dividends will depend upon, among other things, business prospects, future earnings, cash flow, liquidity level and cost of capital. We believe such policy will provide our shareholders with a stable return in the long term along with the growth of our company. We may only pay dividends out of our distributable profits.

Item 9. The Offer and Listing

Market Price Information

Our American depositary shares, each representing ten ordinary shares, are listed and traded on the New York Stock Exchange. Our ordinary shares are listed and traded on the Hong Kong Stock Exchange. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our ordinary shares on the Hong Kong Stock Exchange and of our ADSs on the New York Stock Exchange since listing are as follows:

	Price per Ordinary Share (HK$)		Price per ADS (US$)	
	High	**Low**	**High**	**Low**
Annual:				
2001	14.00	7.10	18.00	9.00
2002	8.90	4.15	11.54	5.35
2003	8.00	3.92	10.55	5.02
2004	10.20	5.20	13.18	6.78
Quarterly:				
First Quarter, 2003	6.00	4.25	7.72	5.40
Second Quarter, 2003	5.75	3.92	7.46	5.02
Third Quarter, 2003	6.35	5.05	8.29	6.54
Fourth Quarter, 2003	8.00	6.65	10.55	8.42
First Quarter, 2004	10.20	7.00	13.18	8.93
Second Quarter, 2004	7.60	5.20	9.55	6.78
Third Quarter, 2004	6.65	5.55	8.53	7.10
Fourth Quarter, 2004	6.45	5.50	8.28	7.15
Monthly:				
January 2005	6.35	5.60	8.11	7.30
February 2005	7.00	6.10	9.05	7.80
March 2005	7.25	6.00	9.19	7.57
April 2005	6.45	5.90	8.26	7.61
May 2005	6.40	6.00	8.23	7.73
June 2005 (through June 24)	6.65	6.05	8.42	7.79

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

General

Under our Memorandum of Association, we have the capacity, rights, powers, liabilities and privileges of a natural person. The following is a summary of selected provisions of our Articles of Association:

Directors

Material Interests and Voting

A director shall not vote (or be counted in the quorum) on any resolution of our board of directors in respect of any contract or arrangement or proposal in which he or any of his associates (as defined in the Hong Kong Stock Exchange Listing Rules) is, to his knowledge, materially interested, and if he shall do so, his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition does not apply to any contract, arrangement or other proposal for or concerning:

the giving of any security or indemnity either (a) to the director or any of his associates (as defined in the Hong Kong Stock Exchange Listing Rules) in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of Unicom or any of its subsidiaries or (b) to a third party in respect of a debt or obligation of Unicom or any of its subsidiaries for which the director or any of his associates has himself assumed responsibility or guaranteed or secured in whole or in part;

an offer of shares or debentures or other securities of or by Unicom (or any other company which Unicom may promote or be interested in) where the director or any of his associates is a participant in the underwriting or sub-underwriting of the offer;

any other company in which the director or any of his associates is interested only, whether directly or indirectly, as an officer or shareholder or in which the director is beneficially interested in shares of that company, provided that he, together with any of his associates is not beneficially interested in 5% or more of (a) the issued shares of any class of such company (or of any third company through which such interest is derived) or (b) the voting rights attached to such issued shares or securities (excluding for the purpose of calculating such 5% interest any indirect interest of such director or any of his associates by virtue of an interest of Unicom in such company);

the benefit of employees of Unicom or any of its subsidiaries including (a) the adoption, modification or operation of any employees share scheme under which the director or any of his associates may benefit or (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors, their associates and employees of Unicom or any of its subsidiaries and does not provide in respect of the director or any of his associates any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or any contract or arrangement in which the director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of Unicom by virtue only of his interest in shares or debentures or other securities of Unicom.

Remuneration and Pensions

The directors of Unicom are entitled to receive by way of remuneration for their services such sum as is from time to time determined by Unicom in general meeting. The directors are also entitled to be repaid all traveling, hotel and other expenses reasonably incurred by them in or about the performance of their duties as directors. The board of directors may grant special remuneration to any director who performs services which in the opinion of the board are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to, any persons (a) who are or were at any time in the employment or service of Unicom, or of any company which is a subsidiary of Unicom, or is allied or associated with Unicom or with any such subsidiary company, or (b) who are or were at any time directors or officers of Unicom or of any such other company above, and holding or who have held any salaried employment or office in Unicom or such other company, and the wives, widows, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers

The directors may exercise all the powers of Unicom to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Unicom and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Unicom or of any third party.

Qualification of Directors

A director of Unicom is not required to hold any qualification shares. No person is required to vacate office or be ineligible for re-election or reappointment as a director.

Rotation of Directors

At every annual general meeting, one-third of the directors for the time being, or, if the number is not three or a multip