



Chang Xiaobing Chairman and CEO

I am pleased to report the Company's operating and financial results for the year of 2006. In 2006, the Company focused on the quality of its business development, furthered the transformation of its business model, continued to implement the brand-centric marketing strategy, optimized its organizational structure and strengthened its internal control system, as well as actively pursued business cooperative opportunities. As a result, the Company maintained healthy developments in all aspects of its businesses and further improved its operational effectiveness.

We achieved solid growth of our business revenue.

Our total revenue reached RMB94.29 billion, an increase of 8.3% from 2005. In particular, our service revenue reached RMB90.03 billion, an increase of 6.8% from 2005.

Service revenue from our cellular business totaled RMB86.58 billion, an increase of 8.6% from 2005. Of this, revenue from our GSM business was RMB59.29 billion, while revenue from our CDMA business was RMB27.29 billion. In addition, revenue from our value-added cellular business accounted for 19.5% of total service revenue generated by our cellular business. The long-distance, data and Internet businesses revenues amounted to RMB3.44 billion.

We continued to improve our operating profitability.

Our profit for the year was RMB3.73 billion. Excluding the unrealised loss on convertible bonds at fair value of

RMB2.40 billion, our profit before income tax would be RMB8.89 billion, an increase of 25.2% from 2005 and profit for the year would be RMB6.13 billion, an increase of 24.3% from 2005, while adjusted basic earnings per share would reach RMB0.486, and adjusted EBITDA would be RMB31.69 billion.

Our financial position has become more stable. Our debt-to-capitalisation ratio declined from 31.2% as at the end of 2005 to 24.4% as at the end of 2006. Free cash flow increased to RMB13.90 billion.

The Board of Directors is pleased to announce that it has recommended the payment of a final dividend of RMB0.18 per share for 2006. If the proposed dividend is approved at the Company's Annual General Meeting, the Company will pay the dividend around 8 June 2007.

Chairman's Statement

Review of 2006

Furthering the transformation of our business model to sustain healthy development of our businesses

We have maintained an equal focus on expansion of our customer base and retention of our existing subscribers. In particular, we have concentrated on optimizing the correlation between marketing costs and revenues. Revenue from our GSM business grew in proportion to the increase in the number of subscribers. Our CDMA business achieved notable improvements in profitability. As at 31 December 2006, the total number of cellular subscribers reached 142.366 million, representing a net addition of 14.572 million subscribers in 2006. Profit before income tax generated by our CDMA business reached RMB1.06 billion. The Company's value-added cellular business also demonstrated continued rapid growth. SMS volume reached 75.68 billion messages, while the number of subscribers for our CDMA 1X wireless data service grew to 20.04 million subscribers. Our long-distance, data and Internet business recorded remarkable growth in both EBITDA and profit before income tax.

Successful establishment of our brand-centric marketing system to enhance marketing capabilities and service standards

In 2006, we successfully introduced our new corporate logo with a distinctive China red, implemented our brand-centric marketing strategy and established a comprehensive branding structure. We targeted middle- and high-end subscribers by emphasizing the technological advantage of "dual-mode, dual-standby" to facilitate the development of "Worldwind" CDMA and GSM dual mode services. We actively developed the youth and campus markets to increase the market share of our "U-Power" services. We also spent significant efforts in mass and rural markets to maintain the steady development of our "Ruyi Tong" services and expanded the corporate and industry applications of our services to fully launch our "Unicom Horizon" services to institutional and industrial customers in markets such as agriculture, commerce and maritime industries.

We targeted specific market segments with service brands and consolidated our product, customer, tariff and channel resources. We promoted portfolio marketing, rationalized our tariff packages, strengthened the establishment of self-owned distribution channels and increased our efforts in the management of handset purchases. As a result, our comprehensive marketing capabilities have been significantly enhanced. Meanwhile, we have further enhanced the quality of our customer service through standardizing customer services, improving after-sales customer service and the customer maintenance and retention service, as well as strengthening the management of content and service providers.

Optimizing and expanding our network infrastructure to provide a strong basis for market development

In response to the need for market development, we have optimized the existing networks and increased our investments, as appropriate, in expanding the network capacity in regions with insufficient resources but profitable prospects. The capacity of the switches for our GSM network also increased by 16 million in 2006 and we also upgraded our GSM networks in 112 major cities to GPRS networks, which further improved our network quality.

By establishing a market-oriented centralized operations and management system, strengthening the construction of supporting systems such as business operations and network management systems, and enhancing the emergency communication capability to ensure our networks' security and quality, a solid foundation has been laid for our further market development.

Focusing on internal control development to enhance management effectiveness

We have striven to establish a comprehensive internal control system, with the aim of enhancing risk management and control through streamlining our business operation processes, identifying risks, implementing control measures and defining risk management responsibilities. As a result, the Company has established a relatively comprehensive internal control system to reduce operating risks and increase our profitability.

To tie in with the development of internal control system, we also introduced and implemented a series of management measures in project construction, business operations, financial management and evaluation and incentive systems, resulting in a notable improvement in control standards.

Chairman's Statement

Significant progress in technical innovation and international cooperation

We have been actively promoting proprietary technological innovations and established a China Unicom Patent Library. During the year, the Company was granted ten patents in China and was awarded six scientific and technological progress awards from the National Communications Academy. In particular, the "CDMA/GSM dual-mode, dual-standby handsets" technology was ranked first among all First Prize winners. The Company also received an official mandate from the CDMA Development Group ("CDG") to develop the global mobile communications standard for "dual-mode, dual-standby handsets".

In July 2006, the Company successfully issued an aggregate principal amount of US\$1 billion convertible bond to SK Telecom Co. Ltd. of Korea and both parties entered into a strategic alliance framework agreement to cooperate in the mobile communications business areas. In August 2006, the Company successfully obtained the permit to provide local mobile communications services in Macau, and in October 2006, the Company won the bid for Macau's 3G licence.

Outlook for 2007

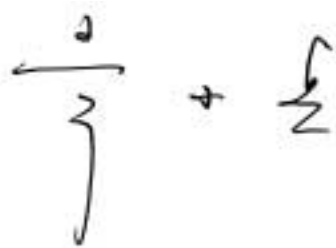
In 2007, we will strive to capture the development opportunities in the PRC telecommunications market and adapt to changes in the competitive market and regulatory policy of the PRC telecommunications industry.

The Company will continue to consolidate and expand its achievements from the transformation of its business model, and drive revenue growth to realize rapid development in all business areas.

To facilitate effective development of our cellular business, the Company will start to implement a segregated and market-oriented management for the CDMA and GSM networks respectively. Leveraging the respective characteristics of the two networks, the Company is in the process of establishing segregated operating divisions and will introduce refined marketing measures. While ensuring a reasonable matching of customer in-network revenue contribution and sales and marketing costs, the Company will further strengthen its GSM customer retention and optimize subscriber composition to ensure effective development of its GSM business and will further improve the handset supply and reasonably leverage on costs to drive the growth of the number of subscribers and revenue of its CDMA business. As for the wireless value-added services, the Company will continue to promote the mature services, actively develop new businesses in response to market demand and enhance its cooperation with content and service providers, as well as increase the share of revenue generated by the wireless value-added services. For the long-distance, data and Internet business, the Company will continue to focus on developing profitable business in regions with market potential and develop value-added fixed-line business.

In 2007, the Company will make greater efforts to implement its brand-centric marketing strategy, enhance its tariff management capability, accelerate the establishment of self-owned distribution channels and further enhance customer service quality. Further upgrades to the network and support system, stronger investment management and an enhanced investment structure, better IT support and faster construction of the technology innovation system are also among the key priorities. In addition, by establishing and improving its internal control system, the Company will strive to strengthen its management, reduce its operational risks and enhance its operating efficiency, with an ultimate goal of actively creating value for shareholders.

In closing, on behalf of all members of the Board of Directors, I would like to take this opportunity to express my heartfelt gratitude to all our shareholders for their strong support to the Company and to all our staff for their hard work and contribution to the development of the Company during the past year.

A handwritten signature in black ink, consisting of stylized Chinese characters, followed by a small cross-like mark and another stylized character.

Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong,
29 March 2007