

## Business Overview



**Shang Bing** President

In 2006, the Company committed to strengthen its capability for sustainable development and to carry out rational, practical and proactive growth strategy. By deepening the transformation of its development model, enhancing market expansion effort, implementing brand-centric marketing strategy, establishing brand-oriented customer service system and fostering innovation and cooperation, the Company further enhanced its overall competitiveness.

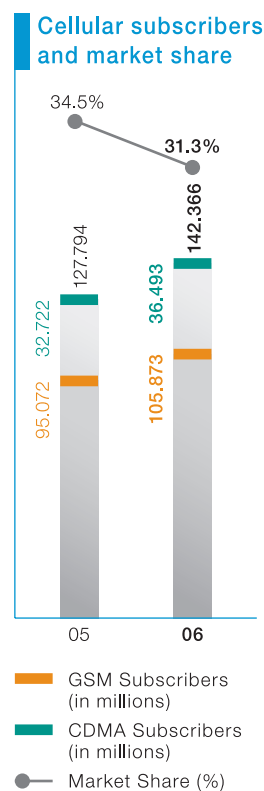
## I. SUMMARY

In 2006, the Company committed to strengthen its capability for sustainable development and to carry out rational, practical and proactive growth strategy. By deepening the transformation of its development model, enhancing market expansion effort, implementing brand-centric marketing strategy, establishing brand-oriented customer service system and fostering innovation and cooperation, the Company further enhanced its overall competitiveness.

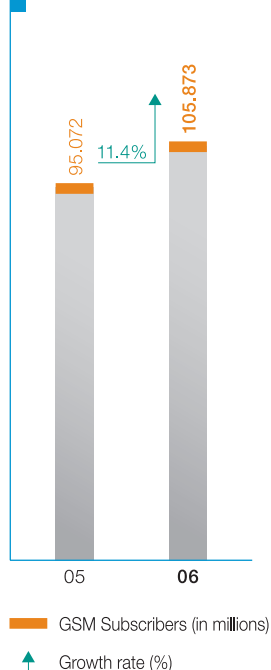
The subscriber base of cellular businesses continued to grow. As of 31 December 2006, the Company had a total number of 142.366 million cellular subscribers, representing an increase of 11.4% from 2005, and the Company's total market share in its service areas was 31.3%. Specifically, the number of GSM subscribers amounted to 105.873 million, representing an increase of 11.5% from 2005, while the number of CDMA subscribers amounted to 36.493 million, representing an increase of 11.4% from 2005.

Mobile value-added services ("VAS") continued to grow rapidly. In 2006, SMS volume reached 75.68 billion messages, representing an annual growth rate of 38.8%. Over the year, total number of "Cool Ringtone" subscribers reached 35.881 million, representing 25.2% of total cellular subscribers. In 2006, the revenue of mobile VAS reached RMB16.86 billion, an increase of 39.5% from 2005, and its share in total cellular service revenue increased from 15.2% in 2005 to 19.5% in 2006.

Long distance, data and Internet businesses were stable. In 2006, the total minutes of outgoing international and domestic long distance calls reached 24.36 billion minutes, representing a decline of 3.4% from 2005.



## GSM subscribers



## II. BUSINESS REVIEW

## 1. Steady Growth of GSM Business

## a) Product and subscriber composition

The Company provides highly qualified GSM cellular services in mainland China and offers GSM international roaming services through 260 operators in 170 countries and regions.

As of 31 December 2006, the total number of the Company's GSM subscribers was 105.873 million, representing a net increase of 10.801 million from 95.072 million subscribers at the end of 2005. Of this total, post-paid subscribers reached 54.267 million, representing a net addition of 6.101 million from 48.166 million subscribers at the end of 2005; the number of pre-paid subscribers increased to 51.606 million,

representing a net addition of 4.700 million from 46.906 million subscribers at the end of 2005. For the year ended 31 December 2006, the average monthly churn rate for the Company's GSM business was 2.44%, similar to that of 2005.

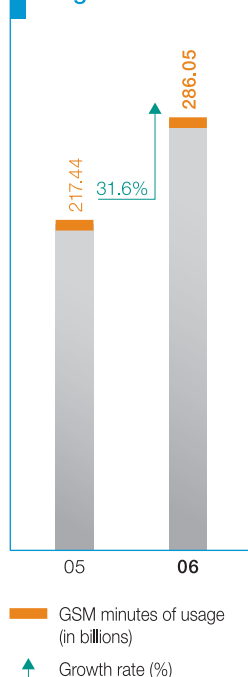
## b) Minutes of usage

In 2006, the total minutes of usage for the Company's GSM subscribers were 286.05 billion minutes, representing an increase of 31.6% from 217.44 billion minutes in 2005.

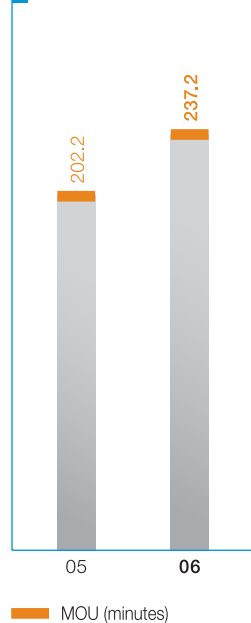
## c) Monthly average minutes of usage (MOU) and average revenue per user (ARPU)

MOU per subscriber per month for GSM services increased moderately in 2006. The average MOU per subscriber per month for GSM services were 237.2 minutes in 2006, representing an increase of 35.0 minutes from the 202.2 minutes in 2005. ARPU for GSM services in 2006 increased to RMB49.2 from RMB48.5 in 2005.

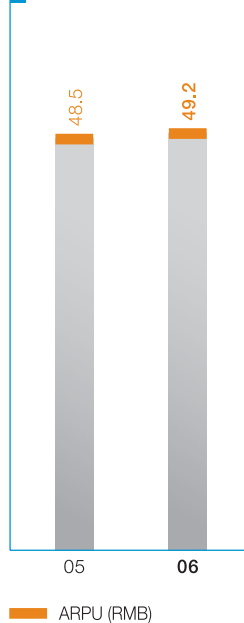
## GSM minutes of usage

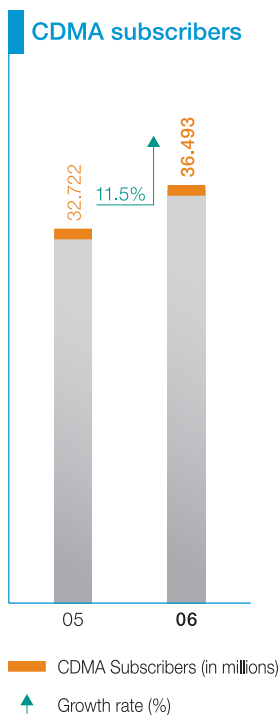


## GSM MOU



## GSM ARPU





## 2. Continuous Growth of CDMA Business

### a) Product and subscriber composition

The Company is currently the only provider of highly qualified CDMA cellular services in mainland China and offers CDMA international roaming services through 22 operators in 16 countries and regions.

As of 31 December 2006, the total number of the Company's CDMA subscribers was 36.493 million, representing a net increase of 3.771 million from 32.722 million in 2005. Of this total, the number of post-paid subscribers reached 33.454 million, representing a net addition of 3.444 million from 30.010 million in 2005; the number of pre-paid subscribers was 3.039 million, with a net addition of 0.327

million from 2.712 million in 2005.

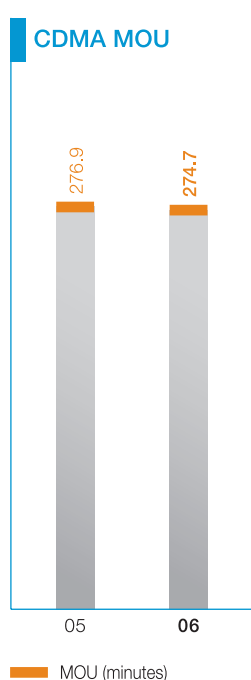
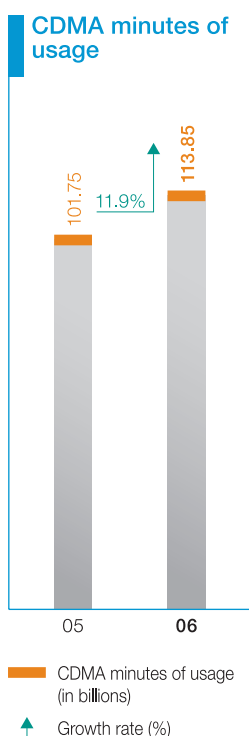
In 2006, the average monthly churn rate for CDMA service was 1.57%, slightly higher than the churn rate of 1.49% in 2005.

### b) Minutes of usage

In 2006, the total minutes of usage for CDMA subscribers were 113.85 billion minutes, representing an increase of 11.9% from 101.75 billion minutes in 2005.

### c) Monthly average minutes of usage and average revenue per user

In 2006, the average MOU per subscriber per month for CDMA services was 274.7 minutes, at a similar level of 276.9 minutes in 2005. ARPU for CDMA service was RMB65.9, representing a decrease of RMB9.2 from RMB75.1 in 2005.



### 3. Continued Rapid Growth of Mobile Value-added Services

In 2006, the Company achieved steady increase of penetration rate of SMS and “Cool Ringtone” services, proactively strengthened cooperation with other partners to establish a value chain featuring “openness, innovation, cooperation and win-win”. The Company also accelerated promotion of services that utilize CDMA 1X technological advantages.

The Company’s SMS service continued to grow. In 2006, SMS volume reached 75.68 billion messages, representing an increase of 38.8% from 54.53 billion messages in 2005. Of this total, GSM SMS volume was 58.89 billion messages, representing an increase of 49.1% from 39.51 billion messages in 2005; and CDMA SMS volume was 16.78 billion messages, representing an increase of 11.7% from 15.02 billion messages in 2005.

“Cool Ringtone”, U-Net and U-Info services grew rapidly. In 2006, the net addition of “Cool Ringtone” subscribers was 13.931 million, and as of 31 December 2006 the total number of subscribers reached 35.881 million. Of

this total, the net addition GSM “Cool Ringtone” subscribers reached 11.954 million and the net addition of CDMA “Cool Ringtone” subscribers was 1.977 million. As of 31 December 2006, the numbers of GSM and CDMA “Cool Ringtone” subscribers were 28.414 million and 7.467 million, respectively. In 2006, the net addition of “uni” subscribers was 4.991 million. Of this total, the net addition of U-Info subscribers reached 4.297 million, while the net addition of U-Net subscribers was 0.694 million.

### 4. Stable Development of Long Distance, Data and Internet Businesses

By focusing on profitability, the Company strengthened cost management and committed to develop profitable business in markets with potential. The Company increased effort in restructuring and optimizing product structure, reduced the scale of unprofitable services so as to further stabilize the revenue stream and improve profitability, thus accomplished the initial purposes of the business transformation of the long-distance, data and Internet businesses.

a) International and domestic long distance business

In 2006, the total minutes of the Company's outgoing international and domestic long distance calls were 24.36 billion minutes, slightly lower than the 25.21 billion minutes in 2005. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, were 2.61 billion minutes.

- PSTN long distance business

In 2006, the total minutes of PSTN outgoing long distance calls increased to 11.23 billion minutes from 10.48 billion minutes in 2005, of which, domestic long distance calls totaled 11.07 billion minutes and total long distance calls to international destinations, together with Hong Kong, Macau and Taiwan, were 0.16 billion minutes. Total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, were 2.39 billion minutes.

- IP long distance business

As of 31 December 2006, international roaming of the Company's IP telephony service was available in 34 countries and regions. In 2006, the total minutes of IP outgoing long distance calls

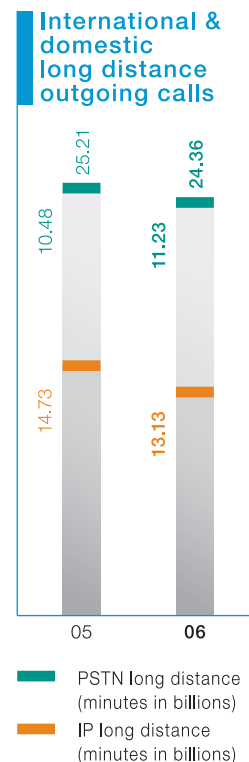
reached 13.13 billion minutes, representing a decrease of 10.9% from 14.73 billion minutes in 2005. Domestic long distance calls totaled 13.02 billion minutes and long distance calls to international destinations, together with Hong Kong, Macau and Taiwan, totaled 0.11 billion minutes. The total minutes of incoming calls from international destinations, together with Hong Kong, Macau and Taiwan, amounted to 0.22 billion minutes.

b) Network lease and video telephony business

The Company offers a variety of line leasing, Asynchronous Transfer Mode ("ATM") and Frame Relay ("FR") services to meet customers' different bandwidth requirements. As of 31 December 2006, the total leased bandwidth was 58,000 x 2Mbps, and the total subscribers of "Uni-Video" broadband video-telephony service reached 465,000.

c) Internet business

As of 31 December 2006, the number of subscribers of the Company's broadband Internet access was 1.254 million. The number of subscribers of "Ruyi" Mailbox reached 12.217 million at the end of 2006, representing a substantial increase of 44.3% from the end of 2005.





### III. NETWORK INFRASTRUCTURE

In 2006, the Company further improved network capacity and quality through network upgrade, expansion and optimization so as to meet market demand. 16 million new switch capacities were added to the GSM networks, and the GSM networks in 112 key cities were upgraded to GPRS. The CDMA network services underwent further optimization and improvement. After obtaining a wireless business license to operate local services and subsequently commencing local operations in Macau, the Company successfully won the bid for a 3G license in Macau, facilitating the Company's further expansion in the region.

By the end of 2006, the Company's wireless connection rate of GSM network increased to 98.41% and call-drop rate was lower than 0.84%; wireless connection rate of CDMA network which was leased from the holding company increased to 99.75% and call-drop rate was lower than 0.37%.

In response to demand for market-oriented operation and management, the Company speeded up the deployment and implementation of its informationization strategy, further optimized construction and application of supporting systems, such as those for commission management, handsets and telephone cards, and

successfully achieved IT support for processes at the national level. As a result, the Company continued to improve the level of informationization of its operation and management systems.

### IV. SALES AND MARKETING

#### 1. Branding Strategies

The Company implemented a comprehensive brand marketing strategy, successfully introduced a new company logo based on red, established a brand-centric marketing system and enhanced brand loyalty and attractiveness. By leveraging the application advantages of "dual-mode, dual-standby" technology, the Company improved the high-end positioning of the "Worldwind" brand in the cellular market. By actively expanding into youth and campus markets, the Company increased the market share of "U-Power" brand. By proactively exploring mass market, the Company maintained the stable development of "Ruyi Tong" brand. By launching services for different industries such as agriculture, commerce, tax bureaus and maritime, the Company further enriched "Unicom Horizon" brand with its focus on the application for institutional users and industrial users.



## 2. Distribution Channels

In 2006, in order to enhance its core competitiveness, the Company eliminated unnecessary distribution layers and strengthened control toward distribution channels. Through rational investment and acceleration of the construction of self-owned distribution channels, the Company improved its self-owned channels' capability to generate sales. The Company also actively cooperated with third-party distribution channels to optimize distribution structure and geographical planning, strengthened assessment of customer quality and revenue contribution from such third-party channels and consequently enhanced effectiveness of commission expenditure.

## 3. Customer Service

In 2006, the Company focused on brand-centric marketing and standardization of quality and process of its customer service, and strengthened "Unicom 10010", a brand-oriented, tiered customer service system. To enhance customer satisfaction, the Company launched a series of customer service campaigns such as "Reliable Network with Sincere Services" to improve customer service. The Company also implemented a customer service responsibility system that is based at the provincial level and coordinated through the Company's

nationwide customer service network.

By requiring the first contacted customer service representative to be responsible for solving the customer's problem within a mandatory period of time, such a system has ensured the appropriate and proper handling of customer complaints and enhanced the Company's customer complaint response capability. As a result, the rate of customer complaints fell substantially and the customer service quality was further improved.

## 4. Tariff Strategies

In 2006, along with the implementation of the brand-centric marketing strategy, the Company further rationalized tariff design, mix of service packages and product differentiation and established a brand-based tariff system. By strengthening the management of tariff packages and simplifying package





structure, the Company endeavored to help customers understand the service package. In addition, the Company also complied with the MII requirement of SP tariff regulation and number portability between internal packages to further strengthen its control over tariff.

## V. BUSINESS STRATEGIES FOR 2007

In 2007, the Company will continue to implement the rational, practical and proactive business strategies. With an ultimate goal of achieving sustainable and profitable growth with enlarged revenue stream, the Company will strive to consolidate and leverage the achievements from the transformation of its business model, accelerate its market expansion, strengthen its business and technological innovations and further expand cooperation.

For its GSM business, the Company aims to further clarify target markets and adopt differentiated strategies for customer retention and follow-on sales and marketing to increase market share. The Company will emphasize quality of subscriber acquisition and increase the share of net addition market. In addition, in order to further improve the profitability of its GSM business, the Company will further strengthen its control of the sales and marketing costs by reasonably matching the increase of such costs with the increase of subscriber

revenue. Furthermore, the Company plans to capitalize on the value-added services and the release of new network number resources to develop high-end GSM services, enhance the quality of new subscribers, and improve the subscriber composition and the image of GSM business.

For its CDMA business, the Company will continue to apply the principle of matching cost and revenue and insist on maintaining a reasonable correlation between handset subsidy and customer revenue contribution so as to reasonably increase revenue. The Company will also expand the industrial application of CDMA technological advantages. In addition to offering wireless data services with market advantages, the Company will conduct cross line marketing, combining wireless data services with voice services and enhance the overall competitiveness of the Company's service and product offerings. Furthermore, the Company will strengthen the construction of sales and marketing channels to create incentives for third-party distribution channels to carry CDMA products and services. To capitalize on the opportunities offered by the initialization of the segregated operations for GSM and CDMA networks, the Company will increase its efforts in managing products and tariff packages and differentiating customers, so as to effectively address the parallel goals of customer retention and acquisition and to increase the scale of revenue and subscriber base for CDMA business.

For its mobile VAS business, the Company will seek to develop 3G-oriented VAS business and accelerate the development of the scale of its VAS business. The Company will also enhance the penetration rate of SMS, “Cool Ringtone” and wireless data business to achieve higher ARPU for VAS business. In addition, the Company will actively expand into new markets by promoting services such as mobile music, instant message and stock information, continue business model innovation and improve the development of value chain for VAS business.

The Company will maintain the profitability-oriented development of its long distance, data and Internet businesses. While maintaining the revenue scale of the traditional voice business, the Company will actively develop and expand revenue sources by offering fundamental data services such as line leasing and dedicated Internet access, promoting fixed-line and wireless integrated services, and focusing on the development of VAS business over data networks and Internet to promote new revenue stream.

To fully unitize the Company’s advantages as an integrated service operator, the Company will leverage industry application to improve the product development for institutional customers. With a goal to enhancing value for institutional customer and increasing customer loyalty, the Company will continue the equal focus on customer retention and

acquisition and further expand into markets with institutional customers and industrial customers so as to effectively increase revenue.

The Company will continue to develop its brand-centric sales and marketing system, enrich brand contents and enhance brand image. It will also improve the distribution system to enhance its core competitiveness. In addition, the Company will further implement the tiered customer service system to establish its advantages in customer service area and to promote its business image, therefore to further enhance the Company’s overall competitiveness.

