

The directors (the “Directors”) of China Unicom Limited (the “Company”) are pleased to present their report together with the audited financial statements for the year ended 31 December, 2000.

### **PRINCIPAL ACTIVITIES AND OPERATING RESULTS**

The principal activities of the Company is investment holding and its subsidiaries (together with the Company shall be known as the “Group”) are principally engaged in the provision of cellular, long distance, data, Internet and paging services in China.

Please refer to pages 62 and 63 of the financial statements for the operating results of the Group for the year ended 31 December, 2000.

### **SUMMARY OF FINANCIAL INFORMATION**

Please refer to the Financial Summary on pages 129 and 130 for a summary of the operating results, assets and liabilities of the Group for the four years ended 31 December, 2000.

### **LOANS**

Please refer to Notes 27 and 28 to the financial statements for details of the bank loans of the Group as at 31 December, 2000.

### **CAPITALISED INTEREST**

Please refer to Note 6 to the financial statements for details of the Group’s capitalised interest for the year ended 31 December, 2000.

### **FIXED ASSETS**

Please refer to Note 20 to the financial statements for changes in the fixed assets of the Group and the Company for the year ended 31 December, 2000.

### **DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS**

As at 31 December, 2000, the Company did not have any designated deposit or any overdue fixed deposit in financial institutions or any other units.

### **RESERVES**

Please refer to page 70 to the financial statements for the movements in the reserves of the Group for the year ended 31 December, 2000.

### **DONATIONS**

For the year ended 31 December, 2000, the Group made charitable and other donations totaling RMB8,949,756.

### **SUBSIDIARIES AND ASSOCIATED COMPANIES**

Please refer to Notes 24 and 25 to the financial statements for the details of the Company's subsidiaries and the Group's associated companies as at 31 December, 2000.

### **DIVIDENDS**

The Board of Directors considers that, with the current rapid growth in the business of the Group, a large amount of funds will be required for network expansion and other capital investments. As such, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 December, 2000.

### **CHANGES IN SHAREHOLDERS' EQUITY**

Please refer to page 70 of the financial statements on the Statement of Changes in Shareholders' Equity.

### **RETIREMENT BENEFITS**

Please refer to Note 12 to the financial statements for the details of the retirement benefits.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights in the articles of association of the Company (the "Articles of Association") requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

### **MAJOR SUPPLIERS AND CUSTOMERS**

The Group's sales to the five largest customers did not exceed 30% of the Group's total turnover for the year ended 31 December, 2000.

Purchases from the largest supplier for the year ended 31 December, 2000 represented approximately 28% of the Group's total purchase. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December, 2000 accounted for approximately 72% of the total purchases of the Group for year 2000.

None of the Directors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers of the Group for the year ended 31 December, 2000.

## CONNECTED TRANSACTIONS

The independent non-executive Directors confirmed that all connected transactions in year 2000 to which the Group was a party:

1. had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of its business;
2. had been entered into either (a) on normal commercial terms, or (b) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than terms available to or from (as appropriate) independent third parties; and
3. had been entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of our shareholders as a whole.

The independent non-executive Directors further confirm that:

1. the aggregate annual value of the lease of the Group's head office in Beijing from Unicom Xingye Science and Technology Trade Co. Ltd. (the "Beijing Lease") has not exceeded the cap of RMB15.2 million ("Cap A"); and
2. the aggregate annual value of the rental charges for premises, equipment and facilities between the Group and China Unicom Telecommunications Corporation, excluding the Beijing Lease (the "Mutual Provision of Premises"), has not exceeded the cap of RMB650 million ("Cap B").

The auditors of the Group have reviewed the connected transactions and confirmed to the Directors that:

- (a) the transactions have received the approval of the Directors;
- (b) the transactions were entered into in accordance with the pricing policies of the Company as stipulated in the relevant agreements governing such transactions;
- (c) the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (d) the Beijing Lease and the Mutual Provision of Premises have not exceeded Cap A and Cap B, respectively.

Please refer to Note 32 to the financial statements for a summary of the connected transactions for the year ended 31 December, 2000.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Please refer to Note 29 to the financial statements for the details of the increase in the share capital of the Company for the year ended 31 December, 2000.

On 1 June, 2000, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the Directors may, at their discretion, invite employees, including executive Directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares (including those that could be subscribed for under the pre-global offering share option scheme, the particulars of which are described later in this section) equal to 10% of the total issued share capital of the Company. According to the Share Option Scheme, the consideration payable by a participant for the grant of an option will be HK\$1.00. The price of a share payable by a participant upon the exercise of an option will be determined by the Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of a share; and
- (ii) 80% of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the Stock Exchange.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years from 22 June, 2000. In year 2000, the Company has not granted any share options under the Share Option Scheme.

On 1 June 2000, the Company also adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"), the principal terms of which are the same as the Share Option Scheme in all material respects except that:

- (i) as at 31 December, 2000, 27,116,600 options have been granted under the scheme, which represent, on their full exercise, 27,116,600 shares;
- (ii) the price of a share payable by a participant upon the exercise of an option shall be HK\$15.42 (excluding the brokerage fee and Stock Exchange transaction levy); and
- (iii) the period during which an option may be exercised commences two years from the date of grant of the options and will end no later than 10 years from 22 June, 2000.

The details of the share options granted to the Directors are set out in "Directors' interest in and right to acquire shares".

Please also refer to Note 30 to the financial statements for the description of the respective share option schemes.

## WARRANTS

As at 31 December, 2000, the Company has issued 26 warrants certificates representing 312,966,836 underlying shares of the Company, which would constitute approximately 2.5% of the issued share capital of the Company, to a total of 24 holders. The warrants may be exercised at any time commencing at 9:00 a.m. on 23 December, 2000 and ending at 5:00 p.m. on 22 June, 2001. The number of shares that the warrant holder may subscribe is determined by dividing the warrants' aggregate exercise price by HK\$15.58.

Please refer to Note 11 to the financial statements for further details on the warrants.

## PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December, 2000, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December, 2000 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of total issued shares
	Held directly	Held indirectly	
(i) China United Telecommunications Corporation ("Unicom Group")	—	9,725,000,020	77.47%
(ii) China Unicom (Hong Kong) Group Limited ("China Unicom (HK)")	—	9,725,000,020	77.47%
(iii) China Unicom (BVI) Limited ("China Unicom (BVI)")	9,725,000,020	—	77.47%

*Note:* Because of the fact that Unicom Group and China Unicom (HK) directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of China Unicom (BVI), in accordance with the Securities (Disclosure of Interests) Ordinance, the interests of China Unicom (BVI) are deemed to be, and have therefore been included in, the interests of Unicom Group and China Unicom (HK).

Apart from the foregoing, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance as having an interest in 10% or more of the issued share capital of the Company.

Please also refer to Note 29 to the financial statements for the shareholding position of the Company's shares as at 31 December, 2000.

**DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY**

The following table sets forth certain information concerning the Directors and senior management of the Company.

<b>Name</b>	<b>Age</b>	<b>Position in the Company</b>	<b>Appointment Date</b>
Yang Xian Zu	61	Executive Director	20 April, 2000
		Chairman, Chief Executive Officer	28 May, 2000
Wang Jianzhou	52	Executive Director	20 April, 2000
		President	28 May, 2000
Shi Cuiming	61	Executive Director	20 April, 2000
		Executive Vice President	28 May, 2000
Li Zhengmao	38	Executive Director	20 April, 2000
		Vice President	28 May, 2000
		Company Secretary	1 June, 2000
Tan Xinghui	39	Executive Director and Vice President	7 September, 2000
Ge Lei	60	Non-Executive Director	20 April, 2000
Craig O. McCaw	51	Non-Executive Director	24 May, 2000
Lee Hon Chiu	72	Independent Non-Executive Director	20 April, 2000
Wu Jing Lian	71	Independent Non-Executive Director	20 April, 2000
C. James Judson	56	Alternate Director to Craig O. McCaw	14 March, 2001
Liu Yunjie	58	Vice President	28 May, 2000

In accordance with Article 97 of the Articles of Association, Messrs. Shi Cuiming, Li Zhengmao and Ge Lei will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

### DIRECTORS' INTEREST IN AND RIGHT TO ACQUIRE SHARES

As at 31 December, 2000, the interests of the Directors and the chief executive of the Company in the equity securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "Ordinance") as recorded in the register required to be kept under section 29 of the Ordinance consist of share options granted pursuant to the Pre-Global Offering Share Option Scheme to the Directors and chief executive to subscribe for shares of the Company. Further details of the above are set out as follows:

Name of directors	No. of options granted <sup>1</sup>	No. of options exercised during the year	No. of options outstanding at year end
Yang Xian Zu	525,000	—	525,000
Wang Jianzhou	396,200	—	396,200
Shi Cuiming	396,200	—	396,200
Li Zhengmao	292,600	—	292,600
Ge Lei	292,600	—	292,600
Tan Xinghui	204,400	—	204,400

<sup>1</sup> Each option gives the holder the right to subscribe for one share.

Apart from the foregoing, at no time during year 2000 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Furthermore, apart from the foregoing, as at 31 December, 2000, none of the Directors had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Ordinance.

### DIRECTORS' INTEREST IN CONTRACTS AND SERVICE CONTRACTS

Each of the existing executive Directors entered into a service contract with the Company for a term of three years.

Save as the service contracts mentioned above, as at 31 December, 2000, the Directors did not have any material interests, whether directly or indirectly, in any contracts of significance entered into by the Company.

None of those Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not terminable by the Company within one year without payment compensation (other than statutory compensation).

#### **EMOLUMENTS OF THE DIRECTORS AND SENIOR MANAGEMENT**

Please refer to Note 9 of the financial statements for the details of the emoluments of the Directors and senior management of the Company.

#### **HOUSING BENEFITS**

Please refer to Note 13 of the financial statements for details of the housing benefits of the Company.

#### **MAJOR EVENTS**

The major events of the Company for the year ended 31 December, 2000 are as follows:

1. The Company was incorporated in Hong Kong under the Companies Ordinance as a limited company on 8 February, 2000.
2. The shares of the Company were listed on the New York and Hong Kong Stock Exchanges on 21 June, and 22 June, 2000, respectively, raising approximately US\$5.65 billion.
3. Our long distance business commenced in April 2000.
4. Our cellular subscribers reached 10 million in September 2000.

#### **COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31 December, 2000 with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules except that the non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association.

#### **USE OF PROCEEDS**

As at 31 December, 2000, the Company has used approximately HK\$24 million of its net listing proceeds for general corporate purposes with the remaining net listing proceeds being deposited into interest bearing accounts.

#### **MATERIAL LEGAL PROCEEDINGS**

As at 31 December, 2000, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the Company is aware of.



## AUDITORS

Arthur Andersen & Co was appointed as the auditors of the Company for the year ended 31 December, 2000 and have audited the accompanying financial statements. Resolutions will be submitted at the forthcoming annual general meeting of the Company to re-appoint Arthur Andersen & Co as the Company's auditors for the year ended 31 December, 2001.

By Order of the Board

**Yang Xian Zu**

*Chairman*

Hong Kong, 3 April, 2001