

Report of the Directors

The directors (the “Directors”) of China Unicom Limited (the “Company”) are pleased to present their report together with the audited financial statements of the Company and the subsidiaries (the “Group”) for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding and its subsidiaries are principally engaged in the provision of Cellular, Long Distance, Data, Internet and Paging services in China.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2001 are set out in pages 67 and 68 of the financial statements.

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 2001.

SUMMARY OF FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 141 and 142 for a summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2001.

LOANS

Please refer to Notes 27 and 28 to the financial statements for details of the bank loans of the Group as of 31 December 2001.

CAPITALISED INTEREST

Please refer to Note 6 to the financial statements for details of the Group’s capitalized interest for the year ended 31 December 2001.

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 2001.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As of 31 December 2001, the Company did not have any designated deposit or any overdue fixed deposit in financial institutions or any other units.

SHARE CAPITAL AND SHARE OPTION SCHEME

Please refer to Note 30 to the financial statements for the details of the increase in the share capital of the Company for the year ended 31 December 2001.

On 1 June 2000, the Company adopted a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to employees who have made contributions to the development of the Company. Under the terms of the Share Option Scheme, 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. The Share Option Scheme became effective on 22 June 2000, and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No option shall be granted to any employee such that the total number of shares issued and to be issued upon exercise of options granted to such employee exceeds 25% of the aggregate number of shares issued and issuable under the Share Option Scheme. According to the Share Option Scheme, the consideration payable by a participant for the grant of options 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 year from 22 June 2000. On 30 June 2001, the Company granted 6,724,000 share options under the Share Option Scheme to its employees which represent, on their full exercise, 6,724,000 shares of the Company with the following terms:

- (i) 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
- (ii) the period during which an option may be exercised commences from the date of grant of the options and will end by 22 June 2010.

The closing price of the Shares on the Stock Exchange was HK\$13.6 on 29 June 2001.

As of 31 December 2001, the Company had granted 6,724,000 share options under the Share Option Scheme.

WARRANTS

The Company has issued 26 warrants certificates representing 312,966,836 underlying shares of the Company for the year ended 31 December 2000, 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.

Up to the expiry date on 22 June 2001 at 5:00 afternoon, all outstanding 26 warrants certificates representing 312,966,836 underlying shares of the Company issued by the Company had not been exercised. As at 31 December 2001, there were no warrants outstanding.

Please refer to Note 32 to the financial statements for further details on the warrants.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2001, 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 as of 31 December 2001 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of
	directly	Indirectly	Total issued Shares
(i) China United Telecommunications Corporation ("Unicom Group")	—	9,725,000,020	77.47%
(ii) China Unicom (BVI) Limited ("China Unicom (BVI)")	9,725,000,020	—	77.47%

Note: Because of the fact that Unicom Group directly 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.

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 30 to the financial statements for the shareholding position of the Company's shares as of 31 December 2001.

In accordance with Article 97 of the Articles of Association, Messrs. Wang Jianzhou, Lee Hon Chiu and Wu Jinglian will retire by rotation at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

In accordance with Article 101 of the Articles of Association, Mr Tan Xinghui will retire at the forthcoming annual general meeting of the Company and being eligible, offer himself for re-election.

DIRECTORS' INTEREST IN AND RIGHT TO ACQUIRE SHARES

As of 31 December 2001, 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 were as follows:

Name of Directors	Personal Interest
Shi Cuiming	30,000 Ordinary Shares
Li Zhengmao	20,000 Ordinary Shares
Tan Xinghui	20,000 Ordinary Shares
C. James Judson (an alternate director to Craig O. McCaw)	1,000 American Depository Shares ¹

¹ One American Depository Shares represents 10 ordinary shares of HK\$0.1 each of the Company.

As of 31 December 2001, the Directors and the chief executive of the Company had 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 follow:

Name of directors	No. of options granted ²	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

² Each option gives the holder the right to subscribe for one share.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year of 2001 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

For the year ended 31 December 2001, the Group has used approximately RMB 14.6 billion of its net listing proceeds for repayment of loans which were borrowed to finance the network expansion and upgrade in 2001. The remaining net listing proceeds is deposited into interest bearing accounts.

MATERIAL LEGAL PROCEEDINGS

As of 31 December 2001, 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 2001 and has audited the accompanying financial statements. The Directors will, at the forthcoming annual general meeting of the Company, to recommend to its shareholders to appoint one of the biggest five international accounting firms other than Arthur Andersen & Co. as the Company's auditors for the year ending 31 December 2002. The Directors will notify its shareholders of the name of a proposed international accounting firm by way of a public announcement in due course, which will be submitted to its shareholders at the meeting for voting under the resolution for appointment of the auditors of the Company for the ensuing year.

By Order of the Board
Yang Xian Zu
Chairman

Hong Kong, 27 March 2002