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.

RESERVES

Please refer to page 75 of the financial statements for the movements in the reserves of the Group for the year ended 31 December 2001.

DONATIONS

For the year ended 31 December 2001, the Group made charitable and other donations totalling RMB9,200,348.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to Note 24 and 25 to the financial statements for the details of the Company's subsidiaries and the Group's associated companies as of 31 December 2001.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 75 of the financial statements on the Statement of Changes in Shareholders' Equity.

HOUSING BENEFITS

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

RETIREMENT BENEFITS

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

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 2001.

Purchases from the largest supplier for the year ended 31 December 2001 represented approximately 17% of the Group's total purchase. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2001 accounted for approximately 49% of the total purchases of the Group for year 2001.

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 2001.

CONNECTED TRANSACTIONS

The independent non-executive Directors confirmed that all connected transactions in year 2001 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:

- 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 United Telecommunications Corporation, excluding the Beijing Lease (the "Mutual Provision of Premises"), had 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 33 to the financial statements for a summary of the connected transactions for the year ended 31 December 2001.

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.

The terms stated above reflect the terms of the Share Option Scheme as adopted by the shareholders on 1 June 2000. The amendments to the relevant provisions of the Listing Rules regarding the requirements of share option schemes of a Hong Kong listed company came into effect on 1 September 2001. The Company must comply with the new provisions of the Listing Rules if it wishes to grant any options after 1 September 2001.

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) on 22 June 2000, 27,116,600 options have been granted under the scheme of which 2,107,000 options have been granted to the directors. Please refer to the section headed "Directors" Interest in and right to acquire shares". Such options, on their full exercise, represent 27,116,600 shares of the Company;
- (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 year from 22 June 2000.

The maximum number of Shares in respect of which options can be granted under the Pre-Global Offering Share Option Scheme shall not exceed 27,116,600. No further options can be granted under this scheme.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

In respect of disclosure of value of options granted, please refer to Additional Financial Information for North American Shareholders as set out on page 140.

The Company has proposed to amend its Share Option Scheme to comply with the new Listing Rules Requirements and to create a more favourable scheme to attract and retain key personnel. In order to synchronise the administration of the options granted under the Share Option Scheme and Pre-Global Offering Share Option Scheme, the Company also proposes to amend the Pre-Global Offering Share Option Scheme to reflect some of the changes proposed to be made to the Share Option Scheme.

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 31 to the financial statements for the description of the respective share option schemes.

Report of the Directors

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:

			Percentage of
	Ordinary shares held		Total issued
	directly	Indirectly	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.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Age	Position in the Company	Original Appointment Date	Re-appointment Date
Yang Xian Zu	62	Executive Director Chairman, Chief Executive Officer	20 April 2000 28 May 2000	
Wang Jianzhou	53	Executive Director President	20 April 2000 28 May 2000	
Shi Cuiming	62	Executive Director Executive Vice President	20 April 2000 28 May 2000	21 June 2001
Li Zhengmao	39	Executive Director Vice President	20 April 2000 28 May 2000	21 June 2001
Tan Xinghui	40	Executive Director and Vice President	7 September 2000	21 June 2001
Ge Lei	61	Non-Executive Director	20 April 2000	21 June 2001
Craig O. McCaw	52	Non-Executive Director	24 May 2000	
Lee Hon Chiu	73	Independent Non-Executive Director	20 April 2000	
Wu Jing Lian	72	Independent Non-Executive Director	20 April 2000	
C. James Judson	57	Alternate Director to Craig O. McCaw	14 March 2001	
Liu Yunjie	59	Vice President	28 May 2000	

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 Depositary Shares ¹

¹ One American Depositary 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:

		No. of options	No. of options	
	No. of options	exercised during	outstanding	
Name of directors	granted ²	the year	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.

Apart from the foregoing, at no time during year 2001 was the Company, or any of its holding companies or subsidiaries or subsidiaries of the Company's holding companies, a party to any arrangement to enable the Directors or any of their spouses of 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 2001, 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, for the year ended 31 December 2001, the Directors did not have any material interests, whether directly or indirectly, in any contracts of significance entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding companies.

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.

MAJOR EVENTS AND CONTRACTS OF SIGNIFICANCE

On 22 November 2001, the Company's wholly subsidiary, China Unicom Corporation Limited entered into a lease with the wholly owned subsidiary of China United Telecommunications Corporations, Unicom New Horizon Mobile Telecommunications Company Limited in respect of leasing CDMA network capacity in the 9 provinces and 3 municipalities of Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei, Beijing, Shanghai and Tianjin. Other than the above, there is no major event or contract of significance entered into by the Group for the year ended 31 December 2001.

Please refer to Note 33(d) of the financial statements for the details of the CDMA network capacity leasing.

Report of the Directors

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