

Integrity



Corporate Governance

In order to enhance its corporate governance standards, as well as fulfilling the requirements under the Sarbanes-Oxley Act, a lot of initiatives were taken in 2004 with respect to the establishment of an internal control system. A steering committee led by the Company's management was established, and formulated the proposals for the establishment of the internal control system. Through endeavours in practical work, such as perfecting the internal control over the business processes, identifying risk management checkpoints, finalizing on the accountability system for risk management and building up a complete and accurate filing system, a comprehensive risk management mechanism was established, which served to effectively manage the risks arising from all economic activities of the Company. The accomplishment of the Company's business strategies and improvement in efficiency is thus assured.

Internal Control Systems

(1) Requirements under Section 404 of the Sarbanes-Oxley Act (hereinafter referred to as the "Sarbanes-Oxley Act")

It has been strongly emphasized by the Company to comply with the requirements under Section 404 of the Sarbanes-Oxley Act. The relevant section of the Act requires the management of the issuers in other countries with equity securities listing in the US securities market to issue reports and representations as to the internal control system that may affect its financial statements.

The relevant internal control report shall stress the management's responsibility for establishing and maintaining an adequate and effective internal control structure and procedures. The management shall also assess, as of the year end of the financial statements, of the effectiveness of the company's internal control structure and procedures for financial reporting. The company's auditor shall also conduct testing and assessment to, and report on the relevant internal control systems.

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(2) Code of Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules")

The Code of Corporate Governance Practice as set out in Appendix 14 of the Listing Rules provided the code provisions and recommended best practices for corporate governance practices by the listed companies, with respect to: (1) composition and procedures of the Board, (2) remuneration structure of directors and senior management; (3) accountability and audit; (4) delegation by the board; and (5) communication with shareholders.

The Company considered that its prevailing systems and mechanisms satisfied or exceeded the requirements under the code. The management will continue to perfect the relevant systems and mechanisms, and deliver its report on corporate governance as required by the code in the annual reports and interim reports to be published by the Company in future.

(3) Summary of Significant Differences between the Corporate Governance Practices of China Unicom Limited and the Corporate Governance Practices Required to be Followed by U.S. Companies under the New York Stock Exchange's Listing Standards

As a company listed on both The Stock Exchange of Hong Kong Limited (the "HKSE") and the New York

Stock Exchange (the "NYSE"), China Unicom Limited (the "Company") is subject to applicable Hong Kong laws and regulations, including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance, as well as applicable U.S. Federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002. The Company is also subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. The Company is not required to comply with all of the corporate governance listing standards of the NYSE.

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the Company has posted on our Internet website (www.chinaunicom.com.hk) a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

(4) Internal Audit

An internal audit unit of about 150 staff has been established by the Company, with officers stationing at various provincial branches reporting directly to this unit. Internal audit focuses on efficiency, accountability and internal controls. It contributes significantly to the strengthening of operation and management of the Company, improvement in internal control system, avoidance of operational risks and increases in economic efficiency. The internal audit also enhances the supervision of the operation and management of the Company, in order that the internal audit system can further accommodate the requirements of internal controls.

(5) Information Disclosure Controls and Procedural Standards

In order to further enhance the Company's system of information disclosure, and to ensure the truth, accuracy, completeness and timeliness of our public disclosures, the Company has adopted and implemented Information Disclosure Controls and Procedural Standards, pursuant to which: an Information Disclosure Review Committee, led by the management, was established; procedures were established to compile and report the Company's

financial and operational statistics and other information, and to draft and supervise the periodic reports; detailed implementation rules were established as to the verifications on the contents and requirements of financial data, in particular that personal certifications were required in the top-up manner from the officers in charge at the various levels of the subsidiaries, branches and major operation units of the Company, which in turn standardized the fundamental principles of information disclosure to be complied by.

(6) Code of Ethics of Directors and Staff

The Company has set out relatively comprehensive standards governing the acts of officers and general staff, including the Code of Ethics for the management and senior staff and an employee handbook. The Company has also prepared the Procedures of Dealing of Securities by Directors in accordance with Model Code for Securities Transactions by Directors of Listed Companies, as set out in Appendix 10 of the Listing Rules.

Corporate Management System

(1) Board of Directors

In the best interests of the Company and its shareholders, the Board of Directors reviews and approves major corporate matters as business strategies and budgets, major investments, capital market operation, merger and acquisition, as well as senior officers' appointments etc. The Board also reviews and approves announcement periodically published by the Company regarding its business results and operating activities.

The Board membership maintains sufficient international and wide representation. Members of the Board consist of outstanding persons from different professions in the mainland China, Hong Kong and overseas. Members of the Board include four independent non-executive directors, which accounted for more than one third of the board membership, and one non-executive director. All independent non-executive directors and non-executive director are influential members of the society and possess good knowledge and experience in different aspects. They make active contribution to the development of the Company. They keep close contacts with the management of the Company and always

reflect fully different matters and opinions at board meetings, which are of concern to the shareholders and the capital market. These kinds of views and opinions facilitate the Board in their consideration of the shareholders' best interests. All independent non-executive directors, except the shareholdings interests as disclosed in this annual report, do not have any business or financial interests with the Company, its holding company or subsidiaries, and confirmed their independence to the Company.

Notices of the board meetings are delivered to the directors one month before the holding of the meetings. It is best endeavoured to deliver all documents for the meetings to the directors at least one week before the holding of the meetings.

All board members, including the independent non-executive directors, always visit various branches and get to know about the Company's operations. The Company always arranges relevant compliance training for the directors to be conducted by our professional advisers, such as lawyers and accountants.

In the year of 2004 the Board held seven full board meetings, for the discussion and approval of those important matters as 2003 annual results, 2004 interim results, first and third quarter results for 2004, the Company's development strategies, and change in the chairman and president. Set out below is an overview of the attendances by the board members in various board meetings:

	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Independent Board Committee meetings	
	No. of attendance in 2004	No. of meetings held in 2004 during his term	No. of attendance in 2004	No. of meetings held in 2004 during his term	No. of attendance in 2004	No. of meetings held in 2004 during his term	No. of attendance in 2004	No. of meetings held in 2004 during his term
Existing Directors								
Chang Xiaobing ¹	Nil	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Shang Bing ²	1	1	N/A	N/A	N/A	N/A	N/A	N/A
Tong Jilu	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Zhao Le	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Lo Wing Yan, William	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Ye Fengping	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Liu Yunjie	7	7	N/A	N/A	Nil	Nil	N/A	N/A
Wu Jinglian	6	7	4	4	2	2	Nil	1
Craig O. McCaw and / or C. James Judson	6	7	N/A	N/A	N/A	N/A	1	1
Shan Weijian	5	7	3	4	N/A	N/A	1	1
Cheung Wing Lam, Linus ³	5	5	2	2	Nil	Nil	1	1
Retired Directors								
Wang Jianzhou ⁴	7	7	N/A	N/A	N/A	N/A	N/A	N/A
Shi Cuiming ⁵	Nil	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Ge Lei ⁵	Nil	Nil	N/A	N/A	1	1	N/A	N/A
Lee Hon Chiu ³	2	2	2	2	2	2	Nil	Nil

Notes:

1. Mr. Chang Xiaobing was appointed as the Chairman and Chief Executive Officer on 21 December 2004.
2. Mr. Shang Bing was appointed as the Executive Director and President on 5 November 2004.
3. Mr. Lee Hon Chiu completed his term of Independent Non-executive Director on 12 May 2004, and did not offer himself for re-election. Mr. Cheung Wing Lam, Linus was appointed as an Independent Non-executive Director on the same day.
4. Mr. Wang Jianzhou resigned as the Chairman, Chief Executive Officer and President on 5 November 2004.
5. Mr. Shi Cuiming and Mr. Ge Lei resigned as Executive Director and Executive Vice President and Non-executive Director on 1 February 2004 respectively.

(2) Committees under the Board of Directors

There are two committees established under the Board of Directors, namely, the Audit Committee and the Remuneration Committee.

(2.1) Audit Committee

The committee consists of three independent non-executive directors. One of the committee members is an investment banker and he possesses expertise and experience in financial management.

The major responsibilities of the committee include: considering and approving the appointment, resignation and removal of external auditors and their fees; reviewing the quarterly, interim and annual financial statements; discussing with external auditors any problems and comments raised during the statutory audits; reviewing any correspondence from the external auditors to the management and responses of the management; and reviewing the relevant reports concerning the internal control procedures of the Company. The committee meets every three months, and assists the Board of Directors in its review of the financial statements in order to ensure effective internal controls and efficient auditing.

In 2004, the works of the audit committee included: supervising the external auditors, who will report directly to the committee; pre-approving the audit and non-audit services to be provided by the independent auditors, and determining the possible effect of non-audit services on auditors' independence; discussing with the management the timing and procedures for the rotation of principal partners with respect to the audit firm responsible for the audit of the Company and reviewing the documents related thereto. The committee also reviewed the working report of the internal audit departments. The committee has carried out its duties effectively, and enabled the

Board of Directors to better monitor the financial condition of the Company, avoid the loss of assets, and prevent significant errors in the financial statements. At the same time, the relevant requirements of the U.S. securities laws with respect to the audit committee are complied with.

(2.2) Remuneration Committee

The committee consists of two independent non-executive directors and one non-executive director. The Chairman of the committee is an independent non-executive director.

The major functions of the committee include: considering and approving the remuneration plans proposed by the management, remuneration scheme of executive directors and the Company's share option scheme. The committee meets at least once a year.

The Remuneration Committee conducts performance appraisals for the Chief Executive Officer and determines his year-end bonus pursuant to the performance target contract entered into between the Board of Directors and the Chief Executive Officer. The Chief Executive Officer is responsible for the performance appraisal and determination of performance-based year-end bonuses for the other members of the Company's management. The results are subject to the review of the committee.

Corporate Transparency

Apart from continuing to publish reports to shareholders and investors semi-annually and annually in accordance with HK GAAP and/or US GAAP on the Company's business and financial conditions, the Company discloses major un-audited operational statistics and financial data quarterly, and announces operational statistics monthly; in order to further enhance the transparency of the Company and the understanding by investors of the business operation of the Company.

Upon every announcement of interim and annual results or major transactions, the Company holds immediately analyst and press conferences. During such conferences, the management of the Company interacts directly with fund managers, investors and journalists to provide them with relevant information and data and reply enquiries. The management of the Company replies accurately and thoroughly questions raised by analysts and journalists. Real-time web-castings and video-recordings are also arranged for the said conferences in order to have wide dissemination of the information and messages. Through the holding of road shows in different countries over the world, the management of the Company meets and communicates with key persons from investment funds and institutional investors to let them have accurate ideas of the performance achieved by the Company's efforts in different aspects like business operation and management etc.

By the publication of announcements and press releases, the Company forwards promptly and accurately to the mass media information regarding the Company's major business development and current state of the management. Regarding relevant questions raised by the mass media, they can all be replied promptly and adequately by the management of the Company.

The website of the Company is also updated constantly to provide the investors and the public with all-round information and news relating to the Company in all respects.

The Company will also disclose the annual total remuneration for each of the directors in the annual report for the year.

Investor Relations

The investor relations department of the Company is responsible for the provision of information and services required by investors, the provision of responses to their

inquiries, and the maintenance of timely communications with investors and fund managers. The Company also arranges from time to time "reversed road shows" for analysts and investors. These activities allow them to have good opportunities to communicate with and understand the management, general staff and subscribers of the Company and its operating subsidiaries, visit different places of business or show rooms of provincial branches, and thus understand timely and thoroughly the status of different aspects of the development of the Company's business.

Shareholders' Interests

The Company has great concern on shareholders' interests and places significant emphasis on the holdings of annual general meetings of shareholders. Executive directors and senior management attend the meetings and treasure the opportunities provided by the meetings to communicate with the shareholders.

The Company held also an extraordinary general meeting in December 2004, which approved matters relating to the supplementing and amending the terms of the Company's connected transactions. During the meeting, in order to protect the interest of shareholders, all resolutions were resolved by polls. The management of the Company announced immediately the verified results of the polls during the meeting and disclosed the same to the public in a Chinese and an English newspapers in the following day.

According to the Company's articles of association, apart from the Chief Executive Officer of the Company, all directors newly appointed during the year concerned and not less than one third of the existing directors are required to retire by rotation. The retired directors will then be eligible for re-election to directors by votes of the shareholders.