

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 its subsidiaries (the “Group”) for the year ended 31 December 2004.

Principal activities

The principal activities of the Company are investment holding and its subsidiaries are principally engaged in the provision of cellular, long distance, data and Internet services in China.

Results and appropriation

The results of the Group for the year ended 31 December 2004 are set out on pages 66 and 67 of the financial statements.

In view of the rapid growth in the Group’s business and strong operating performance during 2004, the Board of Directors recommends the payment of a final dividend of RMB0.10 per ordinary share, totaling approximately RMB1.256 billion for the year ended 31 December 2004.

Summary of financial information

Please refer to the Financial Summary on pages 157 and 158 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2004.

Loans

Please refer to Notes 25 and 26 to the financial statements for details of the bank loans of the Group as at 31 December 2004.

Capitalised Interest

Please refer to Note 9 to the financial statements for details of the Group’s capitalised interest for the year ended 31 December 2004.

Property, plant and equipment

Please refer to Note 20 to the financial statements for changes in the property, plant and equipment of the Group and the Company for the year ended 31 December 2004.

Charge on assets

As of 31 December 2004, no property, plant and equipment was pledged to banks as loan security.

Reserves

Please refer to page 71 of the financial statements for the movements in the reserves of the Group and the Company for the year ended 31 December 2004.

Donations

For the year ended 31 December 2004, the Group made charitable and other donations totalling RMB13,956,000.

Subsidiaries

Please refer to Note 23 to the financial statements for details of the Company's subsidiaries as at 31 December 2004.

Changes in shareholders' equity

Please refer to page 71 of the financial statements on the Statement of Changes in Equity.

Housing benefits

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

Retirement benefits

Please refer to Note 12 to the financial statements for details of the retirement benefits provided to employees 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 its five largest customers did not exceed 30% of the Group's total turnover for the year ended 31 December 2004.

Purchases from the largest supplier for the year ended 31 December 2004 represented approximately 9% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2004 accounted for approximately 25% of the total purchases of the Group for the year 2004.

None of the Directors nor their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") nor 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 2004.

Connected transactions

Please refer to Note 30(a) to the financial statements and the paragraph headed "Material Events" for a summary of the connected transactions entered into by members of the Group for the year ended 31 December 2004.

The independent non-executive Directors of the Company confirmed that all connected transactions referred to in Note 30(a), to which the Group was a party during 2004:

1. were entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of its business;
2. were 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. were 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 lease fee for the lease of CDMA capacity from Unicom New Horizon to CUCL did not exceed the maximum amount of RMB9.361 billion;
2. the aggregate annual lease fee for the lease of CDMA capacity from Unicom New Horizon to Unicom New Century (which has been merged into and succeeded by CUCL) did not exceed the maximum amount of RMB2.460 billion;
3. the aggregate annual lease fee for the lease of CDMA capacity from Unicom New Horizon to Unicom New World did not exceed the maximum amount of RMB1.500 billion;
4. the aggregate annual value of the rental charges for premises, equipment and facilities between CUCL and Unicom Group did not exceed the maximum amount of RMB100 million;
5. the aggregate annual value of the rental charges for premises leased from Unicom Group to Unicom New Century did not exceed the maximum amount of RMB8 million;

6. the aggregate annual value of the rental charges for premises leased from Unicom Group to Unicom New World did not exceed the maximum amount of RMB8 million; and
7. the aggregate value of the rental income for the provision of premises to New Guoxin by CUCL, Unicom New Century and Unicom New World did not exceed the maximum amount of RMB200 million.

Share capital

Please refer to Note 28 to the financial statements for details of the share capital of the Company for the year ended 31 December 2004.

Share option scheme

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. The terms of the Share Option Scheme were amended on 13 May 2002 to comply with the requirements set out in the amended chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") which came into effect on 1 September 2001 and, following amendment, provides a more favourable scheme to attract and retain key personnel. Under the amended Share Option Scheme:

- (i) share options may be granted to employees including executive directors of the Group and any of the non-executive directors;
- (ii) any grant of share options to a Connected Person (as defined in the Listing Rules) of the Company must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options);
- (iii) the maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at 13 May 2002;
- (iv) the option period commences on any day after the date on which an option is offered, but may not exceed 10 years from the offer date; and
- (v) the subscription price shall not be less than the higher of:
 - (a) the nominal value of the shares;
 - (b) the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets on the offer date in respect of the options; and
 - (c) the average closing price of the shares on the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date.

Up to 31 December 2004, 248,626,800 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 8,102,600 share options are being held by the directors. Please refer to the paragraph “Directors’ Interests and short positions in shares, and Remuneration” herein below for details.

All of the options granted and outstanding as at 31 December 2004 are governed by the amended terms of the Share Option Scheme as stated herein.

As of 31 December 2004, 10,496,000 options granted under the Share Option Scheme have been exercised.

Pre-global offering 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”). In order to synchronise the administration of the options granted under the Pre-Global Offering Share Option Scheme with the Share Option Scheme, the Pre-Global Offering Share Option Scheme was also amended on 13 May 2002. The amended terms of the Pre-Global Offering Share Option Scheme are substantially the same as the Share Option Scheme stated above except that:

- (i) The price of a share payable upon the exercise of an option shall be HK\$15.42 (excluding the brokerage fee and Stock Exchange transaction levy);
- (ii) The period during which an option may be exercised commenced two years from the date of grant of the options and ends 10 years from 22 June 2000; and
- (iii) No further options can be granted under the scheme.

Up to 31 December 2004, 25,436,600 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme of the Company, of which 408,800 options are being held by the directors. Please refer to the paragraph “Directors’ interests and short positions in shares, and Remuneration” herein below for details.

All of the options granted and outstanding as at 31 December 2004 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

Up to 31 December 2004, no options granted under the Pre-Global Offering Share Option Scheme have been exercised.

Financial impact and valuation of share options granted

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 the disclosure of the value of options granted, please refer to the section headed "Supplemental Financial Information for North American Shareholders" on page 156.

Please also refer to Note 29 to the financial statements for an additional description of the respective share option schemes.

Purchase, sale or redemption of shares

For the year ended 31 December 2004, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

Substantial interests and short positions in the share capital of the Company

The following table sets out the interests and short positions of every person, other than a Director or chief executive of the Company, in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "Ordinance") as at 31 December 2004:

	Ordinary shares held		Percentage of Total issued Shares
	Held directly	Held Indirectly	
(i) China United Telecommunications Corporation ("Unicom Group")	—	9,725,000,020	77.41%
(ii) China United Telecommunications Corporation Limited ("A Share Company")	—	9,725,000,020	77.41%
(iii) China Unicom (BVI) Limited ("China Unicom (BVI)")	9,725,000,020	—	77.41%

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

Apart from the foregoing, as at 31 December 2004 no person or corporation had any interest or short position in the shares or underlying shares in the Company as recorded in the register required to be kept under section 336 of the Ordinance.

Please also refer to Note 28 to the financial statements for the shareholding position of the Company's shares as at 31 December 2004.

Directors and senior management of the company

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

Name	Position in the Company	Appointment Date	Re-appointment Date
Chang Xiaobing	Executive Director Chairman, Chief Executive Officer	21-Dec-04	
Shang Bing	Executive Director President	5-Nov-04	
Tong Jilu	Executive Director & Chief Financial Officer	1-Feb-04	12-May-04
Zhao Le	Executive Director & Vice President	1-Feb-04	12-May-04
Lo Wing Yan, William	Executive Director & Vice President	8-Jul-02	12-May-03 and 12-May-04
Ye Fengping	Executive Director & Vice President	2-Jan-03	12-May-03 and 12-May-04
Liu Yunjie	Non-Executive Director	1-Feb-00	12-May-04
Cheung Wing Lam, Linus	Independent Non-Executive Director	12-May-04	
Wu Jinglian	Independent Non-Executive Director	20-Apr-00	13-May-02 and 12-May-04
Craig O. McCaw	Independent Non-Executive Director	24-May-00	12-May-03
C. James Judson	Alternate Director to Craig O. McCaw	14-Mar-01	
Shan Weijian	Independent Non-Executive Director	12-May-03	

In accordance with Article 101 of the Articles of Association, newly appointed directors, Messrs Shang Bing is due to retire at the forthcoming annual general meeting of the Company and the retiring director being eligible will offer himself for re-election.

In accordance with Article 97 of the Articles of Association, Messrs Craig O. McCaw (and his Alternate Director, C. James Judson), Shan Weijian, Wu Jinglian, as well as Zhao Le are due to retire at the forthcoming annual general meeting of the Company and, except Mr. Craig O. McCaw (and his Alternate Director, C. James Judson), all retiring directors being eligible will offer themselves for re-election.

Directors' interests and short positions in shares, and Remuneration

As at 31 December 2004, the interests and short positions of the Directors and the chief executive of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities and Futures Ordinance (the "Ordinance")) as recorded in the register required to be kept under section 352 of the Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

As at 31 December 2004, the following Directors and chief executive of the Company held the following share options under the Pre-Global Offering Share Option Scheme and the Option Scheme:

Existing Directors (as at 31/12/2004)

Name of Directors	No. of Options Outstanding At The Beginning of The Year ¹	No. of Options Granted During The Year ¹	No. of Options Exercised During The Year	No. of Options Outstanding At The End of The Year	Remuneration for The Year 2004 RMB
Chang Xiaobing ²	N/A	526,000	—	526,000	77,000
Shang Bing ²	N/A	420,000	—	1,208,400	553,000
Tong Jilu ³	N/A	292,000	—	1,168,000	2,562,000
Zhao Le ³	N/A	272,000	—	816,400	1,996,000
Lo Wing Yan, William	292,000	262,000	—	554,000	2,392,000
Ye Fengping	472,000	262,000	—	734,000	2,177,000
Liu Yunjie ⁴	N/A	292,000	292,000	876,600	292,000
Wu Jinglian	584,000	292,000	—	876,000	319,000
Shan Weijian	292,000	292,000	—	584,000	319,000
Craig O. McCaw	584,000	292,000	—	876,000	319,000
Cheung Wing Lam, Linus ⁵	—	292,000	—	292,000	203,000

- Each option gives the holder the right to subscribe for one share.
- Mr. Chang Xiaobing was appointed as Chairman and Chief Executive Officer on 21 December 2004. Mr. Shang Bing was appointed Executive Director and President on 5 November 2004.
- Mr. Tong Jilu was appointed as Executive Director and Chief Financial Officer on 1 February 2004. Mr. Zhao Le was appointed as Executive Director and Vice President on 1 February 2004.
- Mr. Liu Yunjie resigned as Vice President and was appointed as Non-Executive Director on 1 February 2004.
- Mr. Cheung Wing Lam, Linus was appointed as Independent Non-Executive Director on 12 May 2004.

Resigned Directors (as at 31/12/2004)

Name of Directors	No. of Options of Directors Outstanding At The Beginning of The Year ¹	No. of Options Granted to Directors During Services within The Year ¹	No. of Options Exercised to Directors During Services within The Year	Remuneration During Services within the Year RMB
Wang Jianzhou ⁶	1,236,200	526,000	—	2,214,000
Shi Cuiming ⁷	1,188,200	—	—	3,073,000
Ge Lei ⁸	876,600	—	—	27,000
Lee Hon Chiu ⁹	584,000	—	—	116,000

6. Mr. Wang Jianzhou resigned as Chairman, Chief Executive Officer and President on 5 November 2004.
7. Mr. Shi Cuiming resigned as Executive Director and Executive Vice President on 1 February 2004.
8. Mr. Ge Lei resigned as Non-Executive Director on 1 February 2004.
9. Mr. Lee Hon Chiu resigned as Independent Non-Executive Director on 12 May 2004.

Apart from the foregoing, at no time during the year 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 2004, none of the Directors or chief executive of the Company had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures in 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 has entered into a service contract with the Company.

Save for the service contracts mentioned above, as at 31 December 2004, 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 of compensation (other than statutory compensation).

Emoluments of the directors and senior management

Please refer to the paragraph “Directors’ interests and short positions in shares, and Remuneration” and Note 11 to the financial statements for details of the emoluments of the Directors and senior management of the Company.

Independence of independent non-executive directors

The Company has received from each of its independent non-executive directors his annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company will consider the independent non-executive directors to be independent.

Material events (Acquisition)

On 28 July 2004, the Company entered into a conditional agreement for sale and purchase with China Unicom (Hong Kong) Group Limited in relation to the acquisition of the entire equity interests in China Unicom International Limited (the “Acquisition”).

The Acquisition constitutes connected transactions for the Company under the Listing Rules, pursuant to which the Acquisition was only subject to the reporting and announcement requirements and is exempt from the Independent Shareholders’ approval. The Acquisition was effective in September 2004.

Compliance with code of best practice

The Company has complied throughout the year of 2004 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.

Material legal proceedings

For the year ended 31 December 2004, 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.

Auditors

PricewaterhouseCoopers were appointed as the auditors of the Company for the year ended 31 December 2004 and have audited the accompanying financial statements. A resolution will be submitted by the Board of Directors at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the Company's auditors for the year ending 31 December 2005.

By Order of the Board

Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 24 March 2005