

Corporate Governance Report

Corporate Governance Practices

The Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") provide for code provisions (the "Code Provisions") and recommended best practices 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 for corporate governance practices by listed companies. Other than disclosures made in the section needed "(1) Board of Directors" below, the Company confirms that for the year ended 31 December 2005, it has complied with all the Code Provisions.

(1) Board of Directors

In accordance with the best interests of the Company and its shareholders, the Board of Directors reviews and approves major corporate matters such as business strategies and budgets, major investments, capital market operations, mergers and acquisitions, as well as senior officers' appointments. The Board also reviews and approves announcements periodically published by the Company regarding its business results and operating activities.

The Board membership maintains wide representation. Members of the Board consist of outstanding persons from different professions in mainland China, Hong Kong and overseas. The Board comprises eight executive directors, four independent non-executive directors and one non-executive director. Mr. Chang Xiaobing has been the Chairman and CEO of the Company since December 2004. Mr. Shang Bing is the Company's President. Mr. Chang Xiaobing is responsible for chairing the Board of Directors and for all material affairs, including development, business strategy, operation and management of the Company. Mr. Shang Bing is responsible for the daily operation

and management of the Company. Under the Code Provisions, there should be a clear division of the roles between chairman and chief executive officer, and these roles should not be performed by the same individual. The Board of Directors understands that the principle of the Code Provision is to clearly divide the management of the Board and the daily management of the Company so as to ensure balance of power and authority. The Board of Directors believes that at the present stage, so far as their functions are concerned, Mr. Chang Xiaobing and Mr. Shang Bing have achieved the aforesaid division purpose. The arrangement also facilitates the formulation and implementation of the Company's strategies in a more effective manner so as to assist the Company in further improving its effectiveness in business development.

All independent non-executive directors and non-executive directors of the Company 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 contact with the management and often actively express different opinions and matters relating to the shareholders and the capital market at board meetings. These kinds of views and opinions facilitate the Board in their consideration of the shareholders' best interests. All independent non-executive directors, except for the shareholdings interests disclosed in this annual report, do not have any business or financial interests with the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. Personal particulars are set out in P.13 to P.16 of this annual report. The functions of non-executive directors include but are not limited to attending board meetings, making independent judgments at meetings, playing the leading role in resolving any potential interest conflicts, serving on committees by

invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, as well as monitoring and reporting on matters related to the performance of the Company.

In considering of nomination and appointment of new directors and senior management, the Board looks for candidates within the Company and in the human resources market widely after considering the Company's demand for new directors and senior management. After obtaining consent from the nominees for the nomination and based on the Company's actual needs, the Company will convene a board meeting comprising independent non-executive directors and non-executive director to consider the qualifications of the candidates for preliminary selection. The number of board meetings held during the year and the attendance of directors are detailed in P.19 of this annual report. Under the Code Provisions, non-executive directors shall be appointed on specific terms and offer themselves for re-election, and all newly appointed directors shall be elected by shareholders at the first general meeting following their appointment pursuant to the Company's articles of association. The Company's non-executive directors are not appointed on specific terms but are subject to retirement by rotation at the general meeting pursuant to the Company's articles of association and are subject to re-election by shareholders pursuant to the relevant requirements. All directors of the Company are subject to retirement by rotation at least once every three years. Mr. Chang Xiaobing, Mr. Tong Jilu, Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Li Zhengmao, Mr. Li Gang, Mr. Zhang Junan, Mr. Lu Jianguo, Mr. Cheung Wing Lam, Linus, and Mr. Wong Wai Ming will be due to re-election/election by shareholders at the annual general meeting to be held in May 2006. Personal

particulars of the proposed directors and their proposed salaries are set out in P.13 to P.61 and P.55 to P.61 of this annual report.

Following their appointment, all newly appointed directors will be provided with comprehensive orientation information to ensure that they have proper understanding of the Company's operation and businesses, full understanding of the Listing Rules, applicable regulatory requirements and their responsibilities under Company's business and governance policies.

The Board convenes meetings regularly and ensures that all directors have opportunities to include issues for discussion in the agenda. Notices of the board meetings are delivered to the directors at least 14 days before holding of the meeting. The Company delivers all documents for the meetings to the directors at least one week on a best endeavour basis (and ensures no less than three days) before holding of the meetings. The Company Secretary keeps close contact with all directors and ensures operation of the Board and all committees is in line with the procedures. Additionally, the Company Secretary will be responsible for compiling and regularly submitting the minutes of board meetings and committee meetings to all directors for their review. Directors may obtain independent professional advice according to their needs at the expense of the Company. In addition, if substantial shareholders or directors have significant interest conflicts in a matter to be resolved, the Board will convene a board meeting in respect of the matter and those directors who have conflicts of interest must abstain from voting and are not counted in the quorum of the meeting. Furthermore, the Chairman has a clear responsibility for ensuring that all directors have appropriate knowledge of the current items at the meetings and that all directors are provided with sufficient, complete and reliable information.

All directors must devote sufficient time to handling affairs of the Company. The management will hold formal and informal meetings with all directors from time to time to provide sufficient timely information so that directors can make informed decisions. All board members have the right to inspect the documents and relevant information of the Board. Directors, including independent non-executive directors, visit various branches frequently and understand the Company's operations. The Company

has arranged relevant training for the directors to be conducted by professional advisers, such as lawyers and accountants, from time to time.

In 2005, the Board held five full board meetings for the discussion and approval of important matters such as the 2004 annual results, the 2005 interim results, and the first and third quarter results for 2005. Set out below is an overview of the attendance during the year by the board members at various board meetings:

Existing Directors ⁵	Capacity	Board meetings			Audit Committee meetings			Remuneration Committee meetings			Independent Board Committee meetings		
		Attendance in 2005	No. of meetings held in 2005 during his term	Percentage	Attendance in 2005	No. of meetings held in 2005 during his term	Percentage	Attendance in 2005	No. of meetings held in 2005 during his term	Percentage	Attendance in 2005	No. of meetings held in 2005 during his term	Percentage
Chang Xiaobing	Chairman	5	5	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shang Bing	Executive director	5	5	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tong Jilu	Executive director	4	5	80%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wu Jinglian	Independent non-executive director	5	5	100%	5	5	100%	1	1	100%	1	1	100%
Shan Weijian	Independent non-executive director	5	5	100%	5	5	100%	N/A	N/A	N/A	1	1	100%
Cheung Wing Lam, Linus	Independent non-executive director	5	5	100%	5	5	100%	1	1	100%	1	1	100%
Past Directors													
Zhao Le ²	Executive director	3	3	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Li QiuHong ¹	Executive director	2	2	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lo Wing Yan, William ³	Executive director	5	5	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ye Fengping ³	Executive director	5	5	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Liu Yunjie ³	Non-executive director	4	5	80%	N/A	N/A	N/A	1	1	100%	N/A	N/A	N/A
Craig O. McCaw and/or C. James Judson ⁴	Independent non-executive director	3	3	100%	N/A	N/A	N/A	N/A	N/A	N/A	1	1	100%

Notes:

1. Mr. Li QiuHong was appointed as executive director on 19 July 2005 and resigned on 1 April 2006.
2. Mr. Zhao Le resigned as executive director on 19 July 2005.
3. Mr. Lo Wing Yan, William and Mr. Ye Fengping resigned as executive directors on 1 April 2006. Mr. Liu Yunjie resigned as non-executive director on 1 April 2006.
4. Mr. Craig O. McCaw (and his alternate director Mr. C. James Judson) retired as independent non-executive director on 12 May 2005.
5. Mr. Wong Wai Ming was appointed as independent non-executive director on 19 January 2006. Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Li Zhengmao, Mr. Li Gang and Mr. Zhang Junan were appointed as executive directors on 1 April 2006. Mr. Lu Jianguo was appointed as non-executive director on 1 April 2006.

The Board of Directors has provided clear guidelines for delegation to the management. Some important matters have to be decided by the Board of Directors, including, among others, but are not limited to long-term objectives and strategies, expanding into new businesses, annual budget, initial announcements on quarterly, interim and final results, dividends, major banking facilities, major acquisitions and sales, major connected transactions and annual internal control evaluation.

(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. All committees have written terms of reference and are provided with sufficient resources to perform their duties. The committees will report their decisions or recommendations to the Board of Directors after meetings.

(a) Audit Committee

The Audit Committee comprises four independent non-executive directors, namely Mr. Wong Wai Ming, Mr. Wu Jinglian, Mr. Shan Weijian and Mr. Cheung Wing Lam, Linus. Mr. Wong Wai Ming is the Chairman of the committee. All members of the committee have complied with the "independence" requirement in respect of members of the audit committee according to applicable regulatory requirements. One of the members of the committee is an investment banker with expertise and experience in financial management. The Chairman of the committee is a

chartered accountant with expertise and experience in accounting and financial management.

The major responsibilities of the Audit Committee include but are not limited to considering and approving the appointment, resignation and removal of external auditors and their fees; reviewing the quarterly, interim and annual financial statements; coordinating and discussing with external auditors for 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 at least four times each year, and assists the Board of Directors in its review of the financial statements in order to ensure effective internal controls and efficient auditing.

In 2005, the work of the Audit Committee also included: supervising the external auditors who would report directly to the committee; pre-approving the audit and non-audit services to be provided by the independent auditors, and determining the possible impact of non-audit services on auditors' independence. PricewaterhouseCoopers is the auditor of the Company overseas and in the PRC and has acted as the auditor of the Company for four consecutive years (from 2002 to 2005). Apart

from auditing services, it also provides other services. The remuneration paid to the independent auditor for the year is as follows:

Items	Amount (RMB)
Audit	59,884,000
Audit-related services	1,692,000
Taxation services	35,000
Total	61,611,000

The Audit Committee also discussed with the management the timing and procedures for the rotation of principal partners of 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, ensure the integrity and reliability of the financial statements of the Company and prevent significant errors in the financial statements as well as to ensure compliance with the relevant requirements of the U.S. Federal securities laws and the New York Stock Exchange with respect to the Audit Committee.

(b) Remuneration Committee

The committee consists of independent non-executive directors, Mr. Wu Jinglian and Mr. Cheung Wing Lam, Linus, and non-executive director, Mr. Lu Jianguo. The Chairman of the committee is Mr. Wu Jinglian.

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 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. The committee meets at least once a year.

(3) Preparation of Financial Reports and Financial Reporting

Directors understand that Companies Ordinance has provided that directors shall prepare financial reports for each financial year to give a true and fair view of the financial position of the Company as at the balance sheet date of the financial year and profits or losses of the Company for the year ended the balance sheet date. In preparing financial reports, directors shall:

- Select and consistently apply an appropriate accounting policies to make prudent, fair and reasonable judgments and estimates;
- State reasons for any serious deviations from the accounting principles; and
- Prepare financial reports on a going concern basis, unless it is inadvisable to assume that the Company and the Group will continue to operate in the foreseeable future.

Directors are also responsible for keeping appropriate accounting records to protect the assets of the Company and taking reasonable steps to prevent and investigate whether there are any fraud and other irregularities.

For financial reporting, the management shall provide explanations and information to the Board of Directors so that the Board of Directors can evaluate the merit of the financial and other information that need to be approved. The Board of Directors has also made a balanced, clear and explicit evaluation of the position and performance of the Company in the communication with shareholders.

(4) Internal Control

In the 2004 annual report, we disclosed that the Company identified a material weakness in internal control. Upon the identification of the issue, the Company has undertaken the following measures, include:

- (1) strengthening the internal audit and monitoring controls over our branches;
- (2) improving information management system to enhance the internal control and reinforcing existing control over the financial reporting process;
- (3) establishing financial management responsibility systems and implementing more comprehensive responsibility systems, so as to ensure the accuracy in the reporting of financial data;
- (4) establishing an enterprise risk management system and risk evaluation procedures;
- (5) strengthening the period-end financial reporting process, including enhancing the training of our finance and accounting personnel with respect to U.S. and Hong Kong accounting practices; and

- (6) further formalizing anti-fraud and whistleblower policies and procedures.

In 2005, the Company has progressively implemented the above measures and achieved initial progress, including:

- (1) formulating internal audit standards to further clarify the requirements and procedures of internal audit;
- (2) engaging external consultants to advise on internal control in respect of overall controls and application controls of the Company's information technology system while upgrading the accounting system, developing and testing the consolidated financial reporting system;
- (3) establishing the procedures for regulating the financial reporting and settlement flow at branch level;
- (4) continuing to improve the policies and standards for the control environment within the The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") risk control framework;
- (5) engaging accredited accounting professionals with experience in financial reporting and familiarity with the Hong Kong accounting practices; and
- (6) formulating company-wide anti-fraud policies and establishing enhanced anti-fraud and whistleblowing mechanism.

The management will continue to improve and strengthen our internal control in 2006.

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

(5) Code of Ethics of Directors and Staff and Procedures for Securities Transactions by Directors

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. During the year, directors have complied with the relevant code for securities transactions.

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 by the Company; procedures were established to compile and report the

Company's financial and operational statistics and other information and to review the periodic reports. Detailed implementation rules were also established for the verifications on the contents and requirements of financial data, especially the upward declarations from the individual responsible officers at the subsidiary, branch and major department levels of the Company, which in turn standardized the fundamental principles of information disclosures that need to be complied with.

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 on the compliance with the requirements under Section 404 of the Sarbanes-Oxley Act. The relevant section of the Act requires the management of the non-US issuers 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. Section 404 of the Sarbanes-Oxley Act is effective from the first financial reporting year ending on 15 July 2006 or after for non-US issuers.

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

In order to enhance its corporate governance standards in accordance with the requirements under the Sarbanes-Oxley Act, a lot of initiatives have been undertaken since 2004 with respect to the enhancement of the internal control system. In 2005, efforts were made in

implementing the modifications to the internal control system and organizing nationwide staff training. The Company hopes that, through our continuing efforts, such as enhancing the internal control procedures over the business processes, identifying key risk controls, finalizing on the accountability system for risk management and building up a detailed documentation system, a comprehensive risk management mechanism will be established upon the completion of these improvement plans, which will serve to manage the risks arising from the economic activities of the Company and the information system and thereby facilitate the accomplishment of the Company's business strategies and improvement in operative efficiency in the future.

Summary of Significant Differences between the Corporate Governance Practices of the Company 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 ("HKSE") and the New York Stock Exchange (the "NYSE"), the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules 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. However, as a non-U.S. company 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.

Corporate Transparency

Apart from continuing to publish reports to shareholders and investors semi-annually and annually in accordance with HKFRS and/or US GAAP on the Company's business and financial conditions, the Company discloses major unaudited 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. In addition, the Company submits annual reports and regular reports to the United States Securities and Exchange Commission pursuant to the requirements of the US federal securities laws.

Upon every announcement of interim and annual results or major transactions, the Company immediately holds 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 replies to their enquiries. The management of the Company replies accurately and thoroughly to 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 announcements and press releases, the Company disseminates the latest information on the significant business development and the management of the Company to media in a timely and accurate manner. 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 an accurate understanding of the performance achieved by the Company's efforts in different aspects like business operation and management etc.

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.

Since last year, the Company has also disclosed 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 enable analysts and investors to understand timely and thoroughly the status of different aspects of the development of the Company’s business.

Shareholders Interests

The Company has attached much importance to the annual general meeting. Executive directors and representatives of the audit committee and the remuneration committee attend the meetings and treasure the opportunities provided by the meetings to communicate with the shareholders. At general meeting, the chairman of the meeting proposes individual resolutions in respect of each separate matter. All matters at annual general meeting are resolved by polls and the relevant procedures are explained at the meeting. The Company also appoints external scrutineers to ensure that all votes are counted and recorded as appropriate, and publishes the voting result in a Chinese and an English newspaper in Hong Kong.

The Company also held an extraordinary general meeting in May 2005, which approved matters relating to the Company’s continued connected transactions. In order to protect the interests of shareholders, the Board of Directors specially established an Independent Board Committee which made recommendations to independent shareholders after consulting with independent financial adviser. All resolutions at the extraordinary general meeting 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 newspaper in Hong Kong the following day.